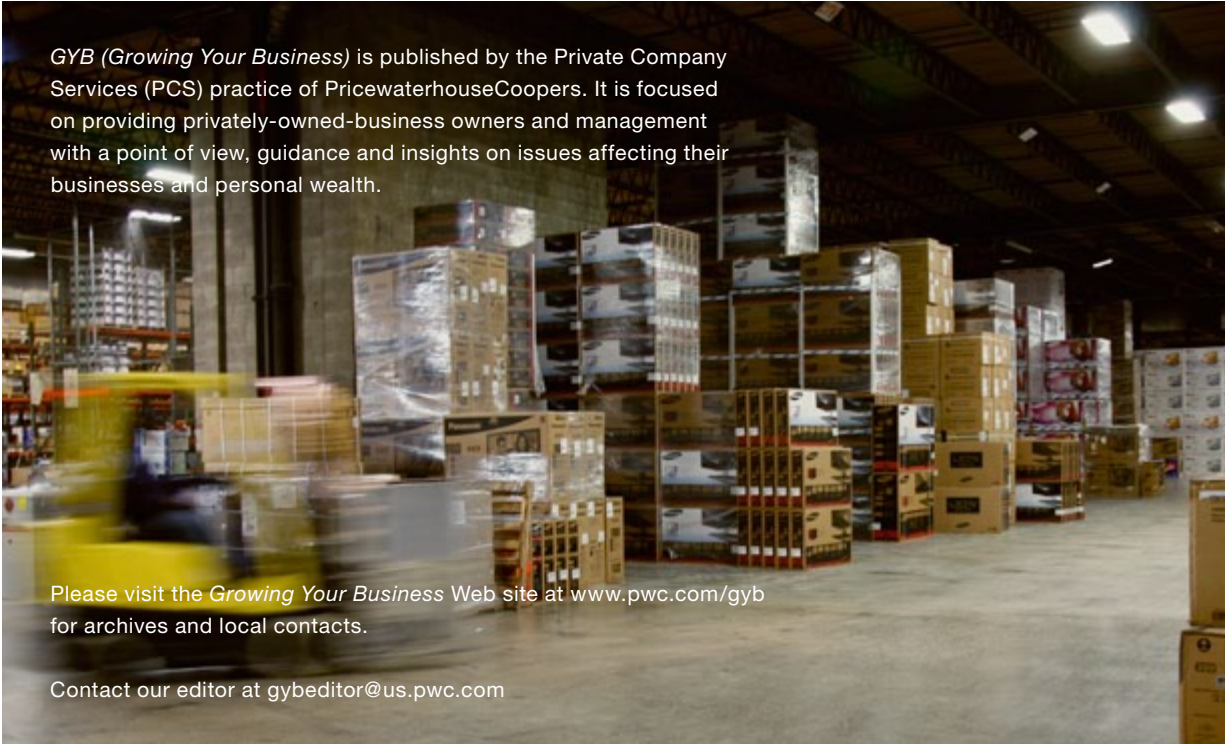


# gyb

Growing your business™

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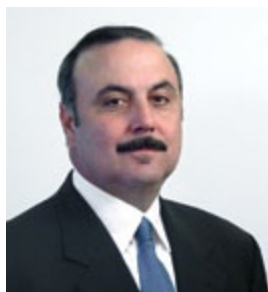


*GYB (Growing Your Business)* is published by the Private Company Services (PCS) practice of PricewaterhouseCoopers. It is focused on providing privately-owned-business owners and management with a point of view, guidance and insights on issues affecting their businesses and personal wealth.

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Contact our editor at [gybeditor@us.pwc.com](mailto:gybeditor@us.pwc.com)

Managing today for  
success tomorrow takes  
foresight — and patience



As the economy continues to move toward recovery, leading private-company owners and management are focused on strategic investments and innovation, while keeping an eye on improvements that will enable them to better manage risk within the evolving business and economic landscape. The goal is building a resilient yet agile organization that will be well-equipped to weather the many challenges the future holds.

The global economic crisis cast a spotlight on the necessity of effective risk management, while creating conditions that may encourage fraudulent action. Private companies in particular, often less resourced and formal in their internal controls processes, are at particular risk for fraud. Companies that take a close look at the systems and processes in place to discourage and detect fraud will not only protect themselves against future loss but may also find ways to eliminate existing inefficiencies and increase cash flow.

At the same time, forward-looking companies are evaluating opportunities for cost-saving in the long term by anticipating energy-related challenges that are on the horizon. Companies that begin to consider environmentally-sustainable strategies now will be best able to balance the demands of an increasingly green-minded customer base with the inevitably rising costs of resources. Implementing these strategies now will build the foundation of an environmentally- and economically-sustainable business in the years to come.

As in most endeavors, those looking to build successful, resilient private companies may be best served by learning from those who have already succeeded. The country's largest, privately-held appliance and electronics retailer, PC Richard & Son, just celebrated its centennial anniversary. The fourth-generation private company has survived and thrived thanks to a measured, common-sense approach to business and an enduring focus on putting the customer's needs above all else, even, in some cases, profit. As a result, the company has outlasted several of its larger and better-known competitors and continues to expand, despite the challenging economic environment.

Indeed, as the Richard family's business demonstrates, a focus on strategic growth, innovation and long-term sustainability is the bedrock of a successful business. The lessons of business have not changed. The challenge is to remember to apply them consistently and continually, no matter the circumstances.

Sincerely,

A handwritten signature in black ink that reads "Rich Calzaretta". The signature is written in a cursive, slightly stylized font.

Richard Calzaretta  
US Leader, Private Company Services

# Growing your business in any economy toward long-term success



## 04 / Greener pastures

**Sustainability: an opportunity for value, savings and innovation**

Sustainability has found a seat in the boardroom and the executive suite. While some businesses see sustainability as a series of potentially burdensome obligations, others may seize the opportunity to transform their companies.



## 12 / Beating the odds

How PC Richard & Son, the largest privately held appliance and electronics retailer in the country, continues to thrive through 100 years and four generations.



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In 2010, a new tax law will permit high-income tax payers to convert IRAs into Roth IRAs, providing a potentially powerful new tax-planning option that should be considered in your overall financial strategy.



# Greener pastures

## **Sustainability: an opportunity for value, savings and innovation**

Sustainability has found a seat in the boardroom and the executive suite. It has become a business imperative to lower greenhouse gas (GHG) emissions, reduce energy use, decrease resource consumption and provide customers with environmentally-sensitive products, despite the weakened economy. While some businesses see sustainability as a series of potentially burdensome obligations, others may seize the opportunity to transform their operations, marketing messages and product lines to improve efficiency, cut costs and meet customer demand.



Business thinking about sustainability has evolved and matured. While the impetus to make the world a better place remains, now there is a second incentive: comprehensive sustainability strategies that can give companies a competitive edge. Today, many organizations realize that aligning sustainability initiatives, such as reducing GHG emissions, to their business goals can lead to stronger brand value and a new, positive way to stand out in a crowded marketplace.

Some companies are already taking action. They respond to market demand by delivering products that require less power and use fewer resources than the traditional goods of their competitors. They invest in technologies, training and systems that will allow them to measure GHG emissions and gain other valuable environmental data that can be analyzed and used to help discover renewable power sources and reduce operating costs, supply chain times and manufacturing waste. They pursue a myriad of tax incentives available from the government, including credits, incentives and accelerated deductions. And the increasing focus on conserving resources can unlock new ideas that save money throughout their operations.

Think of the role that sustainability can play in the boardroom and on the balance sheet. Important stakeholders, such as consumers, customers and investors, are demanding comprehensive sustainability reporting from a growing number of businesses.

Regardless of the size of your company, it is time to consider a sustainability strategy aligned to the long-term vision for your business. What sustainability programs can help you reduce costs? How can environmentally-focused design help you reach new customers? These questions are at the heart of growing sustainable business practices, and they lead to an even bigger question.

### **Why do companies have to pay attention to sustainability issues? Why now?**

Climate change is no longer the sole venue of scientists, activists and political pundits. It is a fundamental business issue that plays an escalating role in the global economy. Estimates show it would require the resources of three Earths to satisfy our planet's fast-growing business demands. Assuming that the top 500 global companies grew at 4 to 5 percent each year, the Earth would begin running out of raw materials at some point within the next 25 years.

Four external forces are pushing sustainability to the forefront for small- and medium-sized enterprises:

## **Sustainability is a primary issue**

### **Commodity supply constraints**

- / Growing resource competition
- / Limited surplus capacity and declining US production
- / Water scarcity

### **Policy environment**

- / Kyoto Protocol, Copenhagen agreement, EU carbon cap
- / Green stimulus package
- / Future US climate-change legislation
- / Global environment standards and treaties

### **Technology improvements**

- / Improved energy efficiency in electronics, vehicles, machinery, lighting, climate systems
- / Commercially-available, renewable energy technologies
- / Smart-grid infrastructure proposed to modernize US power network

### **Stakeholder pressure**

- / Public resistance to coal and fossil fuels
- / Demand for green products and services
- / Investor requests for disclosure of sustainability initiatives and climate-change risks
- / Protests of environmentally, socially disruptive behaviors

How will these external factors impact a business? It depends on what a company does. (The diagram above shows the impact and reach of sustainability within an organization.) If it is a heavy emitter of GHGs, many of the anticipated changes will have an immediate, significant impact. Once the US government adopts a carbon emission reduction law, either through legislation or regulation, as now seems likely, major GHG emitters, such as oil and natural gas producers, utilities and transportation, industrial and construction concerns face the highest likelihood of regulation. These organizations would

need to upgrade facilities and equipment with new technology to meet long-range emission- reduction targets. In other industries, the impact would depend on a number of factors, such as the amount of GHG emissions, what type of technologies are available to reduce emissions and whether allowances or credits are granted.

Even companies that do not emit large amounts of GHGs will be affected, as the price of carbon emissions may pose risks to global supply chains and affect energy costs.

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## **A company can proactively anticipate these changes, and adopt sustainability as a business strategy, by exploring four areas:**

### **Sustainable operations**

- / Uses clean energy to reduce emissions, cut costs, and create new opportunities
- / Provides potential to qualify for government incentives for green power
- / Improves reputation by taking positive action on climate change
- / Promotes more objective, consistent, and verifiable results from performance assessments

### **Sustainable reporting**

- / Helps establish a clear link between a company's sustainability efforts and their business value
- / Increases investor confidence with environmental and social disclosure
- / Highlights competitive advantage of their products for both investors and stakeholders
- / Helps drive continuous performance improvement

### **Sustainable product design**

- / Helps promote higher success rate for new products
- / Lowers risk of product launch delays and recalls related to environmental, health, and safety issues
- / Promotes greater stakeholder and brand value by demonstrating environmental product leadership
- / Advances faster and more adaptive pace of design innovation

### **Government incentives**

- / Helps lower tax burden for companies involved in sustainable initiatives
- / Provides public recognition
- / Offers tax deferments or credits for companies that incorporate energy- or emission-reducing technologies into facilities
- / Supports businesses of all sizes

### The first step: Measuring your footprint

To count how many miles you drive on a journey, you need to reset the trip meter. Likewise, to conduct a meaningful sustainability strategy and measure your company's performance, you need to determine your starting point. That is, you need to measure your carbon footprint.

For many small- and medium-sized enterprises, measuring and tracking non-financial information related to sustainability may seem like a daunting proposal. At first glance, GHG figures may appear much harder to calculate than the type of data that companies have been processing for many years, including inventory, hours and revenue. However, GHG metrics are no different than any other kind of operating or financial information. They can be inventoried, tracked and used to a company's advantage. Measuring the footprint will help you understand how much carbon a company emits in employee travel, building operations, supply chains and manufacturing.

Additionally, while this data is currently non-financial information, the trend in sustainability reporting clearly leads to a standard in which carbon footprint and emissions data will need to be reported with the same quality as financial information. In other words, it must be verifiable, auditable and standardized. Leading companies build consistency, credibility and transparency into their measurement processes and methodologies by adopting a recognized environmental standard and sustainability framework. Three common standards of the framework are the Global Reporting Initiative Framework, the International Organization for Standardization ISO 14001 Environmental Management System and the Greenhouse Gas Protocol.

The footprint exercise is not a one-time event. Just as companies need to assess their financial activities regularly, they also need to monitor and account for sustainability.

It is important that companies use consistent assessment methodologies throughout the enterprise. This may be an issue for businesses with multiple locations—especially those in different states or countries where environmental regulations may differ. Using uniform metrics helps facilitate enterprise-wide data collection, which enables companies to analyze and compare environmental performance throughout the organization.

Once a company has adopted an internationally-recognized framework, it will be in a position to consider its own environmental monitoring capabilities, policies and processes encompassing all of its locations. Ideally, the framework will be designed to

help the company see how its present reporting lines up against current and pending regulations, voluntary reporting guidelines, the reporting performance of competitors and peer companies and the criteria for green rating systems provided by industry, investor and consumer organizations.

At this point, it is important for companies to establish boundaries and determine which measures are most important to stakeholders and business goals. Setting boundaries and limits will help the company decide whether to include suppliers and customers in its sustainability analysis. A broader scope will help companies more fully understand the environmental impact of its products.

Leading companies develop and employ technology to improve their reporting capabilities. These organizations use a common database to collect and consolidate information providing better access to additional data and richer opportunities for analysis. These companies also leverage real-time tracking, displaying useful, relevant information in dashboards to help decision-makers identify and address performance gaps quickly.

### Accounting for sustainability

From the smallest mom-and-pop stores to the largest Fortune 500 companies, financial analysis is a critical tool for understanding business performance. Even the most cursory review of basic financial information, such as sales, receivables and inventory, helps management understand the areas where they perform well and the ones needing improvement.

A thorough sustainability strategy for your company should include the tools to help monitor and collect non-financial information related to environmental factors. When this information is available, it can be analyzed and used to improve operations in a way that may benefit both the organization and the environment.

“Once companies collect this information, they can use it to streamline their processes,” said Lawrence E. Ballard, senior manager, PricewaterhouseCoopers Private Company Services. “Is there a way to make sure that the ways you are harvesting raw materials, shipping products to plants and employing people are environmentally responsible? How much less money could be spent on transportation if you adopted a more fuel-efficient logistics strategy,” Ballard asked. “How are your products boxed—and how much less money could be spent on shipping and packaging materials?”

Many companies have implemented detailed environmental recording and reporting systems in anticipation of new regulations in response to stakeholder expectations (particularly those of customers) or to



provide critical information to help improve systems. Some companies — notably larger public companies — already include accurate, detailed information about sustainability initiatives, such as GHG emissions and water use. This additional disclosure comes in response to investors, customers and other stakeholders who display a strong interest in investing in companies that show not just financial growth but sound sustainability strategies. Consumers, investors and other stakeholders are not the only groups driving companies toward the adoption of controls, technologies and procedures designed for monitoring and reporting environmental information. Regulatory agencies are pushing for greater disclosure from a wider spectrum of companies. In a significant development, the Environmental Protection Agency (EPA) is taking steps to regulate GHG emissions.

Starting in 2010, the EPA will require heavy GHG emitters to measure and report this output. The federal government is now debating mandatory targets for reducing GHG emissions and how to achieve and enforce these targets. Although new regulations are expected to increase business costs, they should also drive innovation.

According to Ballard, venture capitalists and other investors are growing increasingly sophisticated about sustainability issues. Many understand the risks associated with climate change, and accordingly, look for businesses that have adopted sound sustainability strategies and demonstrate transparency around these issues in their reporting.

#### **A deeper conversation: government incentives**

The US government has devoted \$117 billion in economic stimulus money to increasing the energy efficiency of businesses and developing GHG-reducing technology. Many of these incentives come in the form of tax credits or accelerated deductions for companies that take steps to reduce power consumption.

Scott McCandless, director, PricewaterhouseCoopers Washington National Tax Services, said “There is a misconception that these incentives only make sense for large organizations that consume a lot of power. Smaller companies may feel they do not use enough power to reap any useful benefit from applying for the incentives or that they lack the staff and resources necessary to identify the tax credits and deductions. These concerns usually turn out to be unfounded. Smaller companies really are worried that there’s money on the table and they missed it. That’s not true. The benefits are there for them.”

Some of the steps organizations already take to lower utility costs may also make them eligible for government incentives — installing energy-efficient light bulbs or replacing an old air conditioning and heating system with one that requires less power, for example. Challenges arise when people in a company’s tax function are not aware of these incentives and do not know what credits and deductions to search for.

McCandless stressed the importance of intra-company communication between the tax function and the people in charge of sustainability initiatives. In many cases, there are two people that the tax function should be building strong relationships with: the person who runs the company’s sustainability programs and the person who heads up facility operations.

Why is it important to have someone from the tax department at the table when your company is talking about sustainability? McCandless offered two scenarios. First, a tax professional can help the organization discover additional benefits in the form of credits or deductions related to sustainability activities already in progress. Second, an individual with tax knowledge and experience can help the organization explore and analyze opportunities to ensure that chances for additional incentives are not overlooked. Even if your organization has no major projects on the agenda, a member of the tax function or an independent consultant can provide a pulse check, looking for possible credit and deduction opportunities.

#### **Starting your company’s environmental program**

Sustainability cannot be an afterthought, grafted onto a corporate mission statement or crammed into an annual report. Your organization should approach sustainability as part of its long-term strategy to build products and services that consumers want so it can operate in the most effective manner.

“You have to start by really understanding what your company’s vision is,” Ballard said. “Whatever you put in place, you want it to be consistent with your core vision and goals.”

Leading companies build strong business cases for sustainability initiatives, linking such programs to overall business performance and the bottom line. Sound environmental efforts are defined as part of the organization’s general business plan and integrated into its business strategy. When senior management supports sustainability efforts, it gives these initiatives a high profile within the organization.

Once companies have developed a sustainability strategy, they should assess their existing capabilities and determine what training, technology, systems and other resources are needed to move to the desired state.

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## What tax credits and government incentives are available for your business?

The Emergency Economic Stabilization Act of 2008 included \$18 billion in energy provisions. The American Recovery and Reinvestment Act of 2009 included \$60 billion in direct spending for renewable energy and energy efficiency, plus \$20 billion more in incentives over the next 10 years. In addition, your company may be eligible for refunds, credits or other tax incentives through one of the following programs:

- / Section 45 of Renewable Energy Production Tax Credits
- / Section 48 of Energy Property Investment Credit
- / Grants in Lieu of Energy Credits
- / Election to Claim Section 48 of Energy Property Investment Credit in Lieu of Section 45 of Production Credit
- / Advanced Energy Manufacturing Base Investment Credit (pending a second round of investment by Congress)
- / Section 179D of Energy Efficient Commercial Building Deduction
- / Section 6426 of Alternative Fuel Credit (pending renewal of expired provisions)

Other federal tax incentives may reward companies for sustainable programs. Many state, county and municipal governments also offer tax credits and deductions to companies involved in energy-saving activities. Because tax incentives and other tax benefits are broad and complex, your company's tax function should play a role in any discussion about sustainability. An independent adviser can also help you search for savings by aligning tax strategy to environmental initiatives.

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## Meeting the demands for green products

What do customers want today? “The big buzzword is green,” said Lawrence E. Ballard of PricewaterhouseCoopers. “Consumer companies are responding to customer demand and asking how to make environmentally-sustainable products.” “Surveys show that customers are willing to pay higher incremental costs for sustainable and environmentally-responsible products,” Ballard added.

Some companies may be tempted to meet demand for green products by re-branding or repackaging existing products. In contrast, leading companies will use this opportunity to transform their product development processes, integrating environmental factors into all facets of R&D, design, marketing and production. These companies will also reach out to employees, stakeholders and external experts for input and guidance on design and cost savings. The reward for these efforts usually comes in the form of new revenue streams, enhanced brand equity and solid rankings from the investment community for demonstrating positive prospects for the long term.

To meet consumer tastes for more sustainable products, companies should aim to reduce toxic chemicals and nonrenewable resources, while using more durable materials and incorporating recycled and recyclable materials. They should also minimize the materials used in packaging.

Questions to ask during this analysis:

- / How do we reduce waste and energy consumption in our offices, manufacturing plants and other facilities?
- / How can we use more renewable energy sources?
- / How do we reduce or eliminate GHG emissions?
- / How do we accurately measure nonfinancial environmental metrics, such as GHG emissions?
- / How do we accurately measure the financial impact of our sustainability activities?
- / What are the products and services that may be affected by environmental pressures, such as rising water prices and constraints on GHG emissions?
- / How do we encourage innovation within our organization that will promote development of sustainable products and services?
- / How do we communicate our successes to employees and stakeholders?
- / How will we train employees to adopt environmentally sensitive habits and technologies? How do we reward and reinforce that behavior?
- / How do we make sure that we take full advantage of all government incentive programs?

Some employees—and maybe key managers—may resist sustainability programs at first because they represent change. Ballard suggested that a sustainable business strategy can help senior management win over holdouts by building consensus and help the organization obtain customers and gain efficiencies.

With an unambiguous and well-articulated sustainability strategy, a company can create an environment that streamlines operations, cuts costs, promotes innovation, cultivates favorable public relations and produces products and services that customers want.

Recently, many companies have been forced to face significant volatility in energy prices and other environmental issues such as water shortages. Sustainability initiatives should be designed to help organizations lower costs and promote long-term stability by diversifying sources for power, resources and materials—factors that can make companies more agile and efficient.

Transforming an organization into one that requires less power can help the environment and the bottom line at the same time. A company may be able to reduce shipping costs and GHG emissions by shortening transportation routes. It may appeal to more customers and improve sales by designing products that are more efficient and produce fewer GHG emissions than the competition. It may be able to lower the cost of production by adopting new procedures and technology and by monitoring environmental metrics so that adjustments can be made more efficiently.

Companies should cater to customer demand for environmentally-sustainable products by designing and creating items with durable components to extend their useful life. Items should be designed to be upgraded, not tossed away as they age. Companies should attempt to make parts easy to access for repair and maintenance. Components should be clearly labeled so when they are no longer useful, they can be easily disassembled and sorted for recycling or disposal.

Sustainability has become a business imperative for all companies, one that no business can afford to lose sight of. Even if a company does not have a formal sustainability program, it is likely that its divisions are taking steps—even if it just means changing a few light bulbs here and there—to save money through energy-saving investments. When your organizations designs a well-planned, articulate and thorough green strategy, it can clearly differentiate its products and services, cut costs by conserving resources and energy and begin harnessing non-financial information in a meaningful way to improve operations and financial performance.

Want to learn more about how sustainability can benefit your privately-owned business? Please contact:

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## Beating the odds

How PC Richard & Son, the largest privately held appliance and electronics retailer in the country, continues to thrive through 100 years and four generations.



During one of the most challenging economic environments in recent memory, Farmingdale, Long Island, NY-based PC Richard & Son was expanding. In 2009, the appliance and consumer electronics retailer opened seven new showrooms, including its first outpost in Connecticut — all on the heels of the company's most profitable year ever. And in PC Richard & Son's case, "ever" is a long time: 2009 marked the retailer's 100th year in business. How has this privately-held, regional, family-owned and -operated company consistently outperformed, not only against the big-box national retailers that have entered its markets but also in the face of daunting odds against family-owned businesses, where only 3 percent make it to the fourth generation?<sup>1</sup>

"Our company is fairly straightforward, and our business is not truly that complicated, though some of our competitors make it that way," said Gregg Richard, PC Richard & Son president and the fourth generation of his family's leadership. "For 100 years, we have really focused on one thing: taking care of the customer, before, during and after the sale. These are not mere words, but an ingrained feeling in each and every single one of our employees. Our customers have a choice of where they buy, and it is our obligation to give them a reason to buy from us."

A big-picture perspective on giving customers what they want — when they want it, even if it is not always immediately profitable, even if it means taking a measured, rather than aggressive, approach to growth — has served as the foundation of the company's culture and as the driver of its success throughout its 100-year history. "A.J. Richard (who, in 1925, at the age of 16, took the reigns from his father, PC Richard) really drove the values of the enterprise and passed them along to his sons, Gary and Peter," said Peter Kaplan, partner with PricewaterhouseCoopers who has worked closely with PC Richard & Son since 1989. "He always told them that no matter how big the company gets, they've got to remember where they came from and to treat everyone they work with as part of the family. And Gary, now chairman and CEO, continues to pass that belief to the fourth generation. They've always stayed true to their word and to their values, and that, in my view, has really governed how they've grown and expanded."

#### **History repeats itself**

"Honesty, integrity, reliability:" These three words are the company's tagline as well as the basis of a business philosophy that infuses a corporate culture and value system that is passed down from one generation of the family to the next. Each generation grows up immersed

in PC Richard & Son's culture and schooled in the legends of its long history. And each generation works in every aspect of the company's operation — president Gregg Richard used to drive delivery trucks — giving management a 360-degree view of the company's operations, customers, manufacturers and employees.

The business philosophy that drives management decisions today is based on the lessons learned by prior generations, from owning its real estate (In 1912, PC Richard had landlord troubles and since then, the family has strived to own its locations) to making business decisions that go beyond short-term benefits. "Basically, everyone in the company has a very long-range outlook and is focused on what's best for the customer," said CFO Tom Pohmer. "If we have to lose money on a sale to please the customer in the long run, we will. Everyone understands that we are in the business of making customers, not just making sales." It was this insight that enabled a small hardware store to evolve into an appliance and electronics retailing powerhouse. The idea for that modest, first store was born when A.J. Richard, convinced of the potential of the newly-introduced electric iron, allowed his customers to take these appliances home for free on a trial basis and then introduced payment plans for customers who could not afford the purchase price in one lump sum. It was evident in 1945, when A.J. placed a television in the window of his Ozone Park, Queens store to broadcast boxing matches to the neighborhood. Even though none of his customers could afford a television, and he had none to sell if they did (the war had halted television production), A.J. had the foresight and patience to know that these people would eventually be buying televisions. "We have always tried to be at the forefront of technology," said Gary. "You could literally say that we sold the first irons, washing machines, dishwashers and refrigerators. And we continue to evolve to sell our customers what they want, whether that means introducing new technology or ways to give them an easier, more interactive shopping experience."

#### **More than a sale**

PC Richard & Son's took a long-term approach from the beginning — one that has enhanced its customer relationships — and the company has benefited from this important decision. As part of its customer-service efforts, the company goes to great lengths to continue its connection to customers after they've left the store. "Our appliance technicians go to homes and fix more than 400 appliances every day, and our TV electronics technicians repair more than 300 televisions in homes every day," said Gregg Richard. "That is not a profitable part of our business, nor do we look

<sup>1</sup>Family Firm Institute, Inc., 2010

at it like that. We have been in the electronics service business since we started selling the first crystal radios over 70 years ago. We officially started our very own appliance service business in 2006 because the level of service we were getting from third-party providers was not making a whole lot of customers happy. The appliance manufacturers decided it was an unprofitable business for them, then we became more reliant on small, independent service providers who frankly did not care about the customers the way that we did. So we started the appliance service business to serve our customers ourselves, to give them one more reason to buy from us by continuing to create customer loyalty. This gives us the opportunity to have our technician at the customer's home, which is the tie breaker, the winning formula that keeps our customers coming back. PC Richard & Son's service center has seen a 45 percent increase in volume since 2005 and now answers more than 50,000 calls per month.

Finding that tie breaker today is more important than ever. In an industry with razor-thin margins and continued price compression, differentiating itself from the competition — including alternative channel Internet and mail-order retailers, who sell over \$20 billion in computer hardware annually — is a top priority for PC Richard & Son. "Right now, we face a lot of different challenges," said Gregg. "As pricing of TVs, electronics and appliances comes down, we need to sell many more units to maintain the same revenue. And when that happens, all of our back-end costs — trucking, delivery, distribution and service — continue to rise." Between 2007 and 2008, retail prices declined about 17 percent for televisions and about 12 percent for computers and peripherals.<sup>2</sup> In this environment, Gregg is betting that he can set his company apart by offering customers a superior shopping experience. "We still feel there are customers who are, of course, concerned about price but who are also concerned with seeing, touching and learning about products firsthand. That is why we've made our product displays so much more interactive, why we deliver and install everything we sell the next day, why we service what we sell — and the reason why we make sure that we have the most knowledgeable salespeople in our industry."

#### **Making a career of it**

At its 100th anniversary celebration in 2009, PC Richard & Son's honored those employees who had been with the company for the longest time. "There were probably 30 who had been with the company for more than 20 years," recalled Kaplan, who added that there was likely another 150 to 250 who had more than 15 years tenure. "When you think about it, these are salespeople in the retail stores and drivers and

helpers on the delivery trucks. They are compensated fairly, treated well and given opportunities to grow within the business — to be considered in decisions and for advancement. That is what has made the company truly successful," Kaplan said.

PC Richard & Son requires that all its salespeople participate in a two-week training "boot camp" and offers further product education throughout each employee's time with the company at the high-tech A.J. Richard Learning Center with its stadium seating and classrooms. It's an investment that pays off for the company. "We have people who started with us as stock people when they were 16 years old, and now they are store managers in their 30s with families, houses and cars," said Gary. "You can't buy the years of knowledge and experience they gain from our company and our culture, and that includes really understanding the benefits and features of the products we sell."

In addition to its recognized education and development program, PC Richard & Son enrolls its salespeople in profit-sharing programs. "This makes it to a salesperson's advantage to know all of the features of different products and how to explain them well to a customer and, if a customer has a problem, to do whatever it takes to solve it," said Pohmer. "It's a very different approach to that of a typical sales clerk. It gives our employees a truly entrepreneurial feeling. The salespeople themselves are building a customer base that is attached to them. We allow them to build a career here, not be here today and gone tomorrow."

#### **Slow and steady**

PC Richard & Son has not only "out-competed" other electronics and appliance retailers, but it has repeatedly survived and even thrived as its competition has struggled and gone out of business. How has the company continued to grow as others like it — including Crazy Eddie, Newmark & Lewis, Trader Horn, Incredible Universe, Friendly Frost, Eldee, Brick-Church, TOPS, The WIZ, Nobody Beats The WIZ, the New WIZ, Home Expo Design, and even Circuit City, the national retailer that went bankrupt in 2009 — have failed? "It's about having the patience not to do something too quickly, which is a lesson of experience that has been passed down through all four generations of PC Richard & Son's. It's sort of a tried-and-true approach," said PricewaterhouseCoopers' Kaplan. As the company's home base on Long Island grew and became a bigger suburb, the business grew along with it. As A.J. Richard once explained, "I never intended to force my business to become too big. That was never in my mind. Most of my growth just evolved to keep pace with what was happening in the business and the world around me."<sup>3</sup>

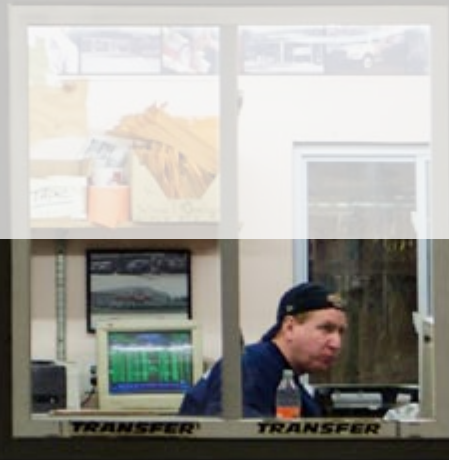
<sup>2</sup>First Research, Inc., 2009

<sup>3</sup>Smith, Jim H., "Work Well Done" *The 100-year story of PC Richard & Son*. 2009, Greenwich Publishing Group: Old Lyme, CT



“Everyone understands that we are in the business of making customers, not just making sales.”

— Tom Pohmer  
CFO, PC Richard & Son





**WILTHARD & SON**  
**PERFORMANCE & ELECTRONICS GIANTS**

**HONESTY INTEGRITY RELIABILITY**

A.J. passed that philosophy down to his son Gary, who in 1993 nearly took the company public. That year, one of PC Richard & Son's main competitors, Newmark & Lewis, went out of business, and then-president Gary acquired seven of their locations. "We had a spike in our revenues after taking over those seven stores, and I said 'If there's ever a time to go public, this is it. Our balance sheet would never look so good,'" Gary recalled. So he and CFO Tom Pohmer joined their underwriters on a 10-day road show. "We visited cities around the country and talked with market makers and investment bankers, and after a while it became clear that they had no clue about our business or company. They were asking questions that didn't even pertain to our industry. And I thought, in going through with the IPO, I would be selling the company short. So I didn't do it, and that was one of the best decisions I made. When you're a public company, your business becomes making the investors happy. You're not making decisions in the best interests of the company but in the best interests of the stock price. And I think, indirectly, had we gone that route, we probably wouldn't be in business today."

Gary passed this philosophy on to his son Gregg, who took the reins of the company in December, 2004. Despite the then-booming economy, Gregg said: "We made a decision not to go after store growth, but to grow from within. We knew that we were not performing as well as we could and that we could get organic growth through our existing stores." The company embarked on an exhaustive program that evaluated every stage of the customer relationship, from sales and delivery to installation and service. "We knew the right thing to do was to step back and build a bigger, better, stronger company, operationally and culturally. And we did it very successfully."


When the economic downturn struck, PC Richard & Son had just undergone a three-year period of reinvestment and internal improvements. "We were really in the best shape to take advantage of the opportunities presented by the downturn; we were prepared

for our next round of growth," Gregg said. "So when Circuit City started to struggle, it opened the door for us to expand into new markets, and we were very prepared for it internally." PC Richard & Son acquired seven Circuit City showrooms, including its first store in Connecticut in 2009. In 2010, the company is opening another seven showrooms for a total of 14 new showrooms in two years.

Still, the company has no plans to expand beyond its current regional scope. "We get a lot of economies by being regional," said Pohmer. "Our operations are central to all our 57 retail showrooms, and we can control the whole customer experience, from sales to trucking to installations to repair. If we expand too far out of our region or too quickly, we lose those economies." Instead, the company has embarked upon a renovation of 30 percent of the floor space in its showrooms. "We have invested heavily in the interior of our existing showrooms, added the video game category and created a partnership with Verizon Wireless to install their stores within our stores. In that way, we're setting ourselves up for the future," said Gregg.

Today, PC Richard & Son has its 57 showrooms in the New York tri-state area and more than \$1.5 billion in revenue, making it the largest, privately-owned appliance and electronics retailer in the nation. In addition to its recent expansion, the company has opened a large regional headquarters, distribution center, A.J. Richard Learning Center and service center in Carteret, New Jersey, setting the stage for further growth in the region. "Right now, we are really in the best position we've ever been in, and we are ready for the economy to recover and for consumer confidence to return," Gregg said. "I think we're going to look back at this time and say 'This was a pivotal point for our company.' Yes, there was a serious and difficult recession, but we went into it very strongly, we invested in, and improved ourselves, during it, and we not only survived but came out stronger and really prepared for our next wave of growth. In three or five years, we'll be able to say that we made some bold decisions that really paid off, and we're better off for it."





# Fighting fraud: What you need to know

How private companies can reduce their exposure — in bad times, and good.

According to a recent survey by the Association of Certified Fraud Examiners (ACFE) in Austin, Texas, 55 percent of certified fraud examiners reported that occupational fraud has increased since the start of the economic crisis.<sup>1</sup> And contrary to the belief that large public companies are usually the targets of schemes, the ACFE found that 42 percent of fraud and employee theft occurs at private and family-owned companies.<sup>2</sup>

What makes otherwise honest people commit fraud?  
What types of fraud are on the rise today, and why?  
And how can private companies reduce their risk?

### The psychology of fraud

“In bad times, people do bad things.” Fraud experts are using this old expression again, but a more sophisticated explanation of what drives people to commit fraud can be found in criminologist Donald Cressey’s fraud triangle, shown below. According to Cressey, three elements are present whenever fraud occurs: pressure, opportunity and rationalization.

#### Pressure

Whether it’s the added financial strain of a spouse’s layoff or the fear of being let go, pressure is often what motivates people to commit fraud. And while it is commonly believed that “fraudsters” are simply greedy, the truth is not so simple. Especially in tough economic times, people may commit fraud even if they receive no financial gain from it. “They could be doing it out of ego — to avoid losing power or prestige,” noted Grace Lamont, partner and leader,

PricewaterhouseCoopers Litigation & Investigations practice. “Once upon a time, an employee was the company’s shining star. Now, suddenly, he isn’t doing so well, and he might try to maintain his status by beefing up profits and fabricating revenue.”

#### Opportunity

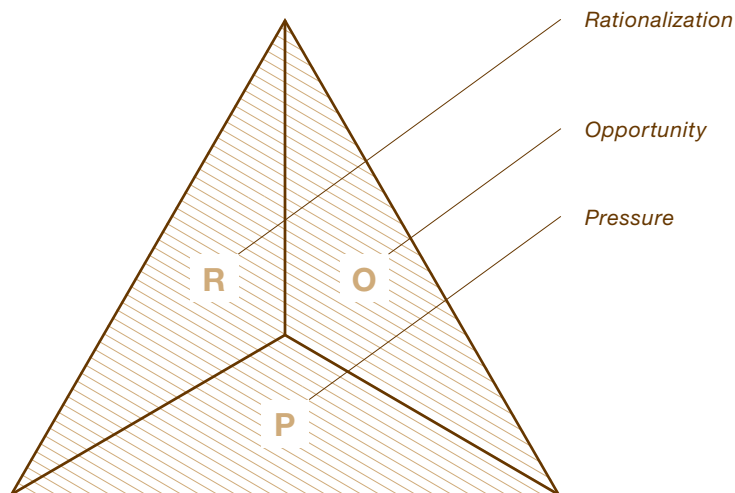
Cost-cutting — as many companies have been doing lately — can increase the opportunities for employees to commit fraud. With layoffs, people often end up performing more than one job, and roles that were once segregated may be combined. The consolidation of certain roles will create the opportunity for fraud. For example, if the person who orders an item also controls payment for that item, this is a scenario ripe for fraud. Lamont recalled a case in which a payroll clerk stole millions of dollars from her company. She diverted payments to herself by manipulating payroll data to include “ghost employees” and extend payments for terminated employees. She also had access to the general ledger, which allowed her to conceal diverted payroll by overstating certain expense accounts and understating certain liabilities.

#### Rationalization

It is easier for people to justify committing fraud in an insecure economic environment. They may tell themselves, “I’m just borrowing this money — I’ll pay it back as soon as I can.” Or, if layoffs have left them overworked, they may resent their employers, thinking, “They’re not paying me what I’m worth, anyway. I’m only taking what I deserve.”

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## Fraud triangle



### The lesser of two evils

Fraud schemes are generally divided into two categories: leakage and liability. If fraud is a storm cloud threatening your business, the silver lining is leakage fraud. “This is one of the biggest missed opportunities for companies looking for more money to keep their business going,” said Jonny Frank, principal, PricewaterhouseCoopers Fraud Risks & Controls group. “If you can spot it and stop it, you can increase your revenue and cut costs at the same time.”

The most common types of leakage fraud are expenditure leakage and revenue leakage; a third is misappropriation of assets.

Expenditure leakage can happen whenever purchases occur outside of the procurement department. Some of the areas most susceptible to abuse include maintenance or cleaning services, marketing, consulting and logistics. Since these expenditures usually involve services, companies should be on guard to be sure they receive what they pay for. If you have been especially hard-nosed with your suppliers because you are trying to save money in a tight economy, be aware that they may be looking to make the money back. For example, your marketing company may be charging you for four-color printing — but only giving you two colors.

Revenue leakage often occurs with the sales force. If your salespeople have discretion when it comes to pricing, be on the lookout for schemes in which they lower prices in exchange for a kickback from the customer. Or a salesperson might knowingly make a sale to a customer who is not credit-worthy to get a commission, resulting in improper revenue recognition and leaving you, as the business owner, to write off the consequent debt.

Finally, misappropriation of assets refers to out-and-out stealing. Most companies have increased their security measures to prevent this, but you could be at risk if you haven’t — especially if your company manufactures items that can easily be sold on eBay, craigslist.com or other online channels. Assets need not be physical, either; they can include customer data (which have been sold by employees to people seeking to commit identity theft) or intellectual property, such as trade secrets.

### Liability fraud

Liability fraud can result in legal liability or diminish the value of your company. The three main types of liability fraud are financial reporting and disclosure manipulation, unauthorized receivables and unauthorized expenses.

Improper revenue recognition is the most common method of fraudulent financial reporting, and usually means recognizing revenue that was not made or recognizing a sale before it is completed, resulting in overstated income. The risk level for private companies depends on how salespeople are compensated — they may be tempted to commit this kind of fraud if doing so helps them get a bonus. Another common form of income overstatement is perpetrated by improperly estimating liabilities, for example, by deliberately underestimating accruals.

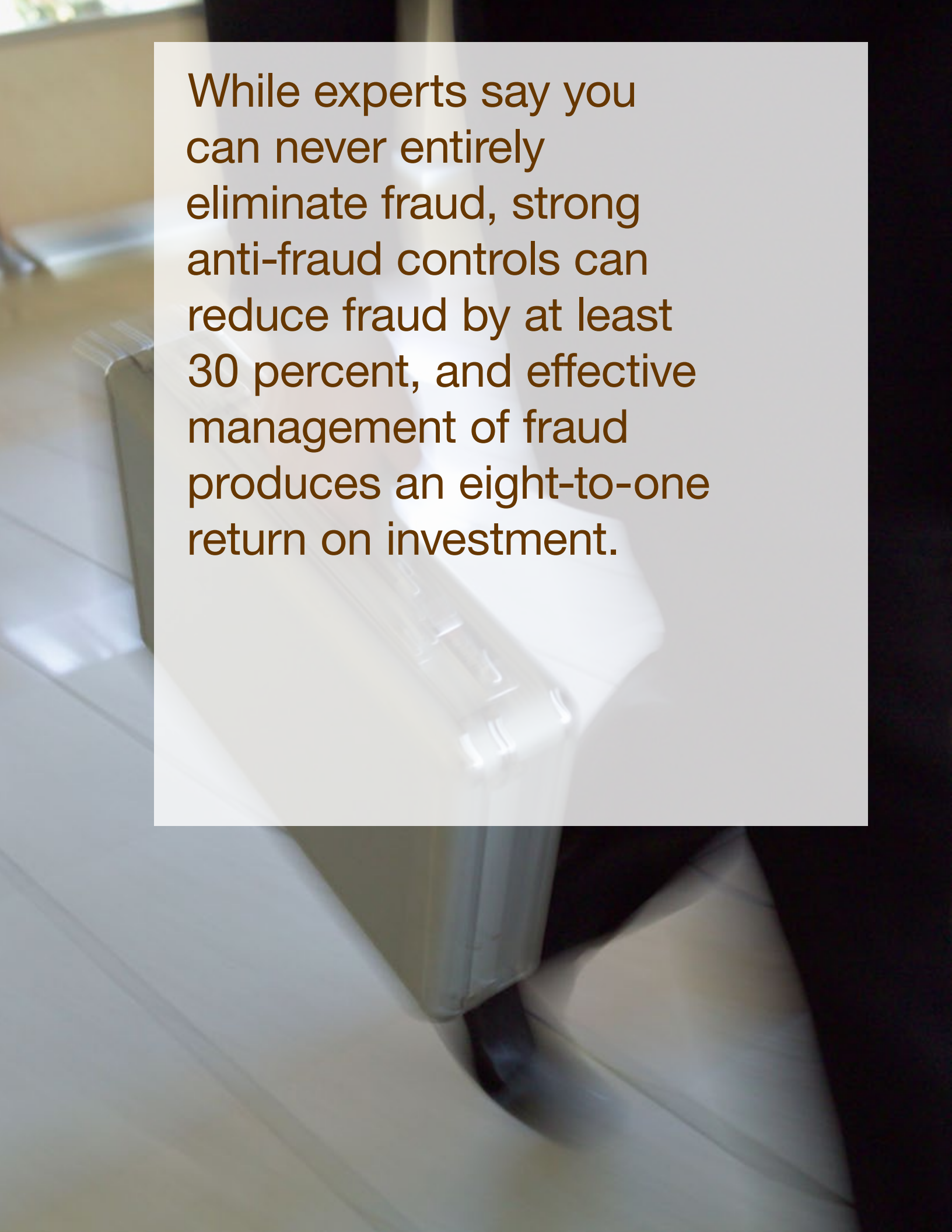
Looking forward, Lamont anticipates that much fraud will likely occur around reserves, which are principally allowances set aside for anticipated costs. “An example of this type of fraud is when companies try to protect their financial results by failing to account for the appropriate level of allowances against receivables and inventories,” she explained. Even for private companies that are not subject to SEC regulations, fraudulent financial reporting can have serious consequences, she added: “If financial results aren’t accurate, that obviously impacts the management decisions based on those results.”

Liability fraud involving unauthorized receivables often involves improperly-obtained rebates, for example, if a clothing retailer that gets concessions from manufacturers for failing to sell a certain number of garments lies about the number of garments sold in order to get the rebate. Another example is overcharging customers, which should be of particular concern to any private companies that are doing business with the government as a result of the federal stimulus package. “Growing your company by taking advantage of federal stimulus money is a good idea, as long as you keep in mind that doing business with the government is not like doing business with your regular customers,” noted Frank. “The government expects you to be completely transparent. If your company is caught overcharging customers, you could go to jail.”

Finally, a critical type of liability fraud, the most common of which is bribery, involves unauthorized expenses. Companies doing business overseas should be especially cautious, according to Frank: “You might not realize that someone you’re doing business with is a public official,” he explained. “The most common example is China, where many people in business are also officials of the Communist Party.” Bribery can be a domestic problem as well. Salespeople afraid of losing their jobs may try to meet their numbers by influencing potential buyers by offering bribes. The buyers, in turn, may have financial problems and therefore may be more likely to accept the money.

<sup>1</sup> Association of Certified Fraud Examiners, 2009. Occupational Fraud: A Study of the Impact of a Global Recession

<sup>2</sup> Jeffrey Able and Jonny Frank, “How Private Companies Stop Fraud,” *Chief Executive*, October/November 2006



While experts say you can never entirely eliminate fraud, strong anti-fraud controls can reduce fraud by at least 30 percent, and effective management of fraud produces an eight-to-one return on investment.

## Reducing your exposure

While experts say that you can never entirely eliminate fraud, strong anti-fraud controls can reduce fraud by at least 30 percent, and effective fraud management produces an eight-to-one return on investment. Remember that if your company winds up embroiled in a scandal, you could lose both your reputation and your customer base — not to mention the time and expense of undergoing an investigation. Here are some strategies that may help to reduce your risk:

- / *Develop fraud-risk indicators.* Consider your operations and controls from the perspective of a fraudster, suggested Frank. For example, if you make employees provide receipts for any expenses greater than \$25, employees who frequently submit charges for \$23 should raise a red flag. The same would be true of salespeople who give frequent discounts — they may be doing so in exchange for customer kickbacks.
- / *Have good corporate governance and strong internal controls.* Important roles and responsibilities should be segregated: The person who reviews bank reconciliations, for example, should not have the task of writing checks or posting items in accounts receivable.
- / *Hold training sessions.* Educate employees about different types of fraudulent schemes, the risks involved, detection and how to design and evaluate controls. If you have a group of employees who are especially vulnerable to fraud, you might even announce a special anti-fraud initiative in their department. “People will stop committing fraud if they think there’s a crackdown,” Frank said.
- / *Prevent check fraud with positive pay.* This is a service available from financial institutions where a company electronically shares its check register with the bank so that the bank will only pay checks with serial numbers and dollar amounts matching the register.
- / *Increase vigilance and diligence around control activities.* It is crucial to complete authorizations, approvals and other control exercises carefully as opposed to just going through the motions. For example, before authorizing expense reports, properly review the individual expenses and the supporting documentation, and make sure that the total of individual expenses matches the total expenses reported.

- / *Include non-executive members on your board.*

A useful deterrent to fraud is placing non-executive members — people who don’t work for the company — on your board of directors. “They’re more independent, so their decisions are less clouded, and they can be more easily attuned to unusual or unexpected results,” Lamont explained. Non-executive board members often become the main drivers of any investigation into significant fraud allegations, she added, making sure that the investigation is as independent as possible.

- / *Set up an anonymous hotline.* This gives your employees and customers the opportunity to report fraud without fear of retaliation. “As a detection tool, hotlines can help reduce potential exposure to fraud,” said Lamont.
- / *Establish a lockbox.* Lockbox banking is a service where checks from customers and the like are directed to a special post office box instead of going to the company. The bank retrieves and processes the payments and deposits them directly into the company’s bank account. This eliminates one of the biggest opportunities for fraud: when checks from customers come straight to the company’s.
- / *Prepare a disaster plan.* In the event that there is an investigation into fraud allegations, make sure employees know what to do, whom to contact (depending on the company, this could be the internal audit group, the general counsel or someone outside the company) and whether you need to bring in outside help, such as independent forensic accountants. “You should be proactive to avoid the consequences of any scandal, and be sure that you can act expeditiously and efficiently if the worst happens,” said Lamont.

Want to know more about protecting your business against fraud? Please contact:

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A blurred office scene with bookshelves and people working. The background shows a modern office environment with dark wood bookshelves filled with books and decorative items. A man in a light blue shirt and tie is seated at a desk in the foreground, looking down. A woman in a red sweater is standing in the background, looking towards the camera. The lighting is warm and focused on the office space.

## Roth IRA conversions: 2010's unique opportunity

In 2010, a new tax law will permit high-income tax payers to convert IRAs into Roth IRAs, providing a potentially powerful new tax-planning option that should be considered in your overall financial strategy.



A sound financial strategy encompasses the key elements that contribute to your overall financial health, including tax planning, insurance, portfolio management and investment planning. This strategy should be reviewed on a periodic basis to take into account any changes in market conditions or your own situation. One such change occurs this year: As a result of the Tax Increase Prevention and Reconciliation Act of 2005, high-income taxpayers now have, for the first time, the option to rollover traditional IRA accounts into Roth IRAs.

#### **What is the difference between a traditional IRA and a Roth IRA?**

An IRA (Individual Retirement Account) provides an investor with a tax-deferred or tax-free method for retirement savings. While there are many types of IRAs available, the most common are the traditional and Roth IRAs; the main difference between the two is whether your contributions are pre-tax or post-tax and whether you have a minimum distribution requirement. Both tools are used to house stocks, bonds, mutual funds and other assets owned by the account holder and allow these investments to accumulate in a tax-advantaged manner.

Under a traditional IRA, the account is created and the account holder may receive an upfront tax deduction upon contribution. The account holder only pays taxes when funds are withdrawn. The account holder of the traditional IRA is subject to minimum distribution requirements: You can begin withdrawing funds at age 59½ without penalty for early withdrawal but are required to take distributions at age 70½.

With a Roth IRA, you contribute after-tax dollars, but the income and growth are not subject to tax when removed, provided the distribution satisfies a five-year holding period and takes place after age 59½ (with the exception of death, disability or the need to meet first-time homebuyer expenses). The required minimum distribution rules that apply to traditional IRAs do not apply to Roth IRAs, which means the account can continue to grow tax-free after age 70½.

Both traditional and Roth IRAs have annual contribution limits; you could contribute up to \$5,000 to both vehicles in 2009 (with a \$1,000 catch-up contribution allowed for individuals over 50). The Roth IRA has income limits to determine whether you are eligible to contribute, and those limits may not allow any of the \$5,000 to be contributed. Although there are no income limits for traditional IRA contributions, if you are participating in another retirement plan, income does determine how much of your contribution is deductible. A Roth contribution is never deductible; it is made with after-tax dollars.

#### **What is changing in 2010?**

High-income taxpayers (defined as single people with an adjusted gross income over \$120,000 and married people with an adjusted gross income over \$176,000) are not currently permitted to establish and contribute to Roth IRAs. Prior to 2010, taxpayers with an adjusted gross income greater than \$100,000 were not allowed to convert existing traditional IRAs into Roth IRAs at all. While high-income taxpayers will still not be permitted to make annual contributions to a Roth IRA, starting this year, they will have the option to convert traditional IRAs to Roth IRAs. “Many high-income taxpayers have large IRA balances, particularly if they have established an IRA rollover account to defer taxation of qualified retirement plan distributions. It’s just one reason why this is an exciting tax planning opportunity and one that can have a profound impact on financial planning,” said Scott Torgan, principal, PricewaterhouseCoopers Personal Financial Services.

#### **Benefits of converting to a Roth IRA**

“The Roth IRA is a great asset to leave to children or grandchildren since it has no built-in tax liability associated with it,” said Torgan. “The longer you can keep from using the funds in the account, the more powerful this investment tool becomes.”

The tax-free accumulation of income in a Roth IRA is particularly attractive for younger taxpayers, as sheltering years of earnings in this manner can lead to enormous compounding. The Roth IRA account holder does have to meet the five-year waiting period in order to make penalty-free withdrawals. Beyond that point, however, the Roth IRA, given its lack of distribution requirements, has additional flexibility for withdrawing funds when compared to a traditional IRA. Since one does not have to begin taking distributions at age 70½ with the Roth IRA, the asset can continue to grow tax-free. For those individuals who have other assets to draw on during retirement, this tax-free compounding is even more attractive.

Another benefit of the Roth IRA conversion is a special incentive in 2010, where you can elect to pay the income tax associated with the conversion over two years, in 2011 and 2012. (Normally, the tax related to a Roth conversion must be paid on the tax return for the year of the conversion.) But the taxpayer needs to be cautious when taking advantage of this short-term tax deferral: If you are subject to higher tax rates in 2011 and 2012, which would be the case as tax rates increase, there will be a direct cost to delaying the tax payment.

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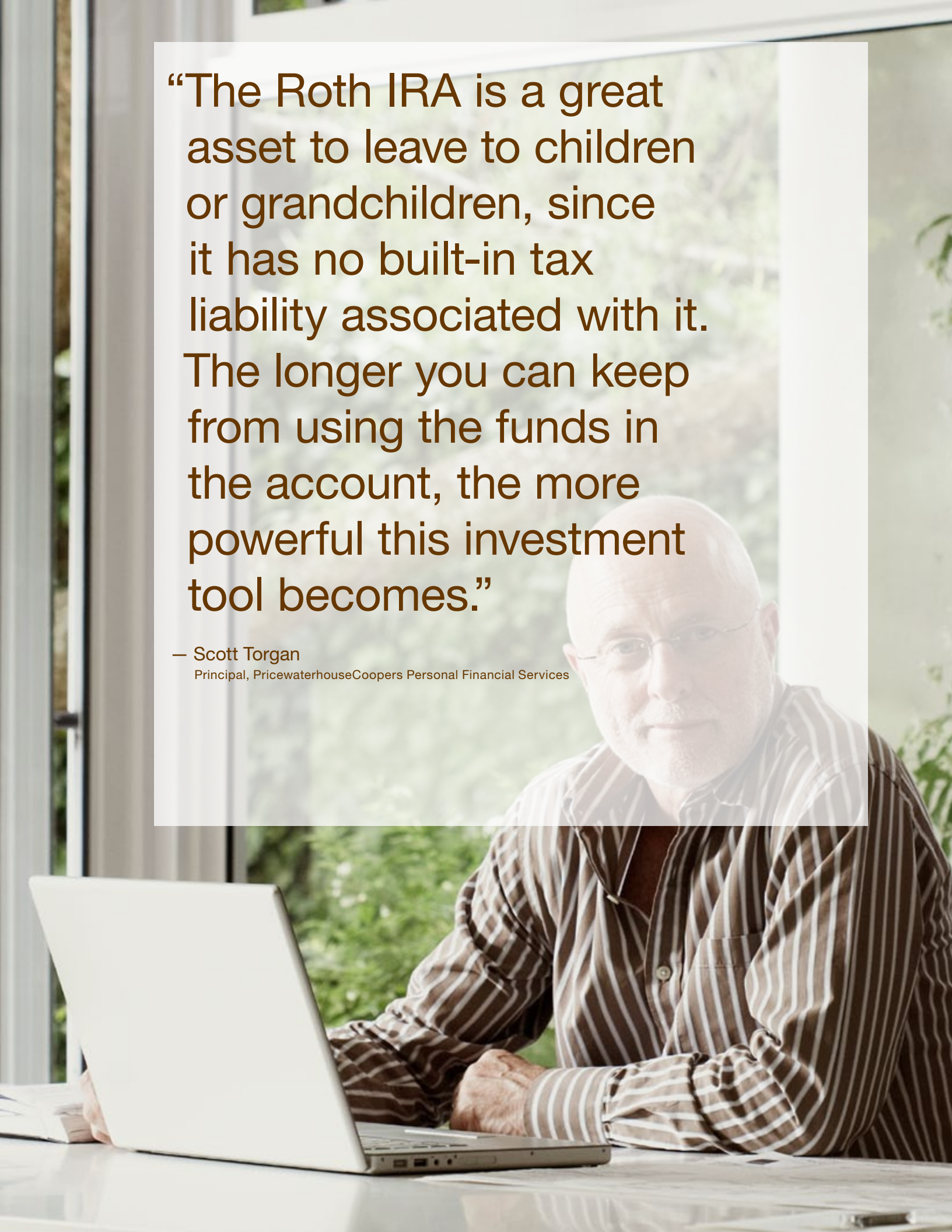
## Traditional vs. Roth IRA comparison

### Traditional IRA

- / Method for housing stocks, bonds, mutual funds and other assets owned by the account holder for retirement savings
- / Funds within the account grow tax free
- / Minimum distribution requirements start at 59 ½ and are mandatory at 70 ½
- / No income restrictions for contribution amounts
- / Contribute pre-tax money, taxes are paid when funds are withdrawn

### Roth IRA

- / Method for housing stocks, bonds, mutual funds and other assets owned by the account holder for retirement savings
- / Funds within the account grow tax free
- / No minimum distribution requirements
- / Income limits affect contribution amounts
- / Contribute after-tax money, no taxes on funds when withdrawn

A man with glasses and a striped shirt is sitting at a desk with a laptop. He is looking directly at the camera. The background is a window with greenery outside.

“The Roth IRA is a great asset to leave to children or grandchildren, since it has no built-in tax liability associated with it. The longer you can keep from using the funds in the account, the more powerful this investment tool becomes.”

— Scott Torgan

Principal, PricewaterhouseCoopers Personal Financial Services

### What should I consider when converting to a Roth IRA?

The process of converting from a traditional IRA to a Roth IRA is fairly straightforward — much like the process for an IRA rollover — but the manner in which the account(s) is set up can impact the overall effectiveness of the Roth IRA.

Because you must pay income tax on the taxable portion of an IRA upon conversion, the first step is to determine how you will pay these taxes. You can pay them upfront or take advantage of the opportunity to pay in installments. Although this can be a significant tax cost, remember: Once the IRA becomes a Roth IRA, all income and future appreciation have the potential to grow tax-free. Given recent market declines in retirement accounts, a conversion to a Roth IRA early in 2010 may be much less costly than it would have been in the past when IRA values were higher.

“Another consideration is the rising tax rate,” said Torgan. “In 2010, the top federal tax rate will be 35 percent. However, the rate is going up in 2011 to 39.6 percent and may even go higher. Therefore, it may be prudent to pay the taxes now, rather than later.”

Another tax consideration is the state income tax rate where the account holder lives. If you live in a high-tax rate state and are planning to move to one with a low tax rate, you need to consider the state tax laws and income tax rate to determine if moving would be beneficial.

“Ideally you want the funds you’ll use to pay the taxes on your Roth IRA conversion to come from another source, rather than creating a distribution from your IRA,” said Torgan. “As it is in your best interest to keep as much value in your Roth IRA as possible, effective planning for the tax-conversion cost is a planning step that should not be overlooked.”

As part of this process, consider the beneficiary designation, and update it, if necessary. To extend the tax-deferred compounding, it may be wise to make your spouse the beneficiary and have your spouse designate your children as the ultimate beneficiaries. In this case, the Roth IRA remains part of your taxable estate, but any income tax is avoided.

You also have the option to revert to the traditional IRA (or “recharacterize” your conversion) up until the due date, plus extensions, of the return for the tax year when the conversion was done (i.e., through April 15 or October 15 of the year following the conversion). “For example, let’s say you convert to a Roth IRA on January 1, 2010 by transferring \$1 million in assets from your traditional IRA to the new Roth IRA. In early April of the following year — before you file your return — the value of the asset goes down to \$900,000.

You can elect to undo the Roth before paying your conversion taxes, thereby avoiding the tax on the \$100,000,” said Torgan.

When converting your traditional IRA to a Roth IRA, you may also want to consider setting up multiple Roth IRA accounts and separating them into different asset classes. For example, you might create one Roth IRA for bonds, one for emerging market equities and one for U.S. equities. The benefit of this strategy is that if one asset class performs poorly, you can “recharacterize” so you are not paying tax on an asset that has decreased in value subsequent to the conversion. If all of the asset classes were commingled, you would not be able to isolate and remove the depressed asset class, and the entire account would be treated as one asset. This approach enables you to take advantage of the different rates of growth within the various asset classes.

“As always, it is important to step back and make sure this is the right option for your specific needs, consistent with your own financial plan,” said Torgan.

“Paying the taxes upfront is counter to how we typically approach savings, and if you convert to a Roth IRA with the intention of withdrawing the funds in the short-term, this is probably not the best investment tool for you.” Because the circumstances surrounding each individual’s decision to convert to a Roth IRA will vary, working with a financial advisor can be helpful in navigating the variables of the conversion.

Want to know more about Roth IRA conversions?  
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Or visit our website at [www.pwc.com/pcs](http://www.pwc.com/pcs) to locate the PricewaterhouseCoopers contact nearest you.

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