

Protecting Your Company if the Bubble Bursts

We have seen it happen in multiple industries from tech to real estate...a rapid/sustained run-up (bubble) can only last so long before it eventually bursts, leaving companies and individuals to navigate through an uncertain and usually tough environment for some period of time. When a downturn hits, those companies who have carefully planned and prepared are much more likely to weather the storm.

In today's state of market volatility and investor uncertainty, it is more important than ever to protect yourself and your company. While we have seen some change in the funding environment, it is often hard to tell precisely when circumstances will change dramatically. Companies who are caught off guard are the most likely to crumble during a downturn. Successful companies understand what to expect and prepare for hard times.

The first thing to consider is that there will likely be a change in your ability to raise funds. VC funding has already become more difficult to secure as investors are wary due to market volatility, and many startups are seeking alternate funding sources. In the case of a downturn, you should be prepared to face even more difficulty securing funding, and investors will be looking for a much more solid and defined path to profitability to even consider an investment.

Something that entrepreneurs often forget is that customers can provide liquidity as much as investors. The ultimate goal of most companies is to be independent and self-sustaining. Focus on creating a solid strategy to grow your customer base and your revenue. One-time investments are what disappear when the bubble bursts; a solid customer base can help sustain you.

Another issue to look into is your burn rate. Consider what hires are essential to your growth and what benefits or perks are necessary vs. "nice to have." Remember, the more employees and the more perks you have in place when a bubble bursts, the more you have to lose. Also, consider your office space. This is often a great expense for startups and often an expense that can be reduced. Do you have more than you need, or will your rent be too high in the case of a downturn?

No one knows if or when the bubble will burst, but conditions suggest that it could happen. It might not be the kind of downturn we experienced in the early 2000's, but those companies that are prepared will no doubt have a much stronger chance of survival.

David Goldenberg's practice covers a range of clients, many of which are growth oriented technology companies. He generally counsels companies throughout their lifecycle and helps them with a variety of contractual and corporate matters. He also counsels executives on employment matters. David also works with company founders, investors and related parties on preferred stock, common stock, convertible debt, secured loan, up-round, down-round, bridge, warrants and other types of financing (over 80 financings completed), and has worked on multiple mergers at all size levels, from \$6 million to \$1.9 billion, as well as licensing, strategic partner and IPO transactions. He has also advised

publicly traded companies in mergers and acquisitions, financing, corporate governance, stock option and executive compensation.