

OWNERSHIP TRANSFERS TO INSIDERS

A Component of

The Seven Step Exit Planning Process™

The Seven Step Exit Planning Process™ is comprehensive enough to address all of the key elements required to create a successful Exit Plan, and flexible enough to work with each business owner's planning style. Although some business owners prefer to develop their Exit Plan as part of one multi-faceted process, others prefer to work through the Exit Planning process in stages.



For those who want a staged approach, the owner and his or her advisors can prioritize the elements of the Exit Plan and complete each component sequentially, rather than all at once. In these situations the owner and advisors identify each Component of the Exit Plan to be addressed and create a schedule for addressing and completing that Component before moving on to the next.

For owners who are focused on Ownership Transfers to Insiders, the Exit Planning Process can be modified as follows:

STEP 1

IDENTIFY OWNER OBJECTIVES

Each Component of the Exit Plan relies on the owner's objectives with respect to that Component to propel the business owner toward his or her overall objectives. Objectives in this Component often include a desire to provide employees or children with an opportunity to acquire ownership. Owners also typically want to receive full fair value for their ownership interest. The results of an analysis of the business owner's financial needs determine how much he or she must receive in connection with an ownership transfer.

STEP 2

IDENTIFY BUSINESS AND PERSONAL FINANCIAL RESOURCES

It is equally important to isolate what the business owner has to work with. The value of the business, expected future performance of the business and the owner's non-business financial resources combine to create the parameters within which planning takes place. Future cash flow of the business is likely to fund the ownership transfer, either directly or indirectly. The business value must fill the gap between an owner's other financial resources and his or her financial needs.

OWNERSHIP TRANSFERS TO INSIDERS

Business owners frequently express interest in selling their ownership interests to insiders (co-owners, family members or key employees). However, the tools and techniques available for accomplishing these transfers in a manner that achieves the owner's objectives in the areas of business value, transaction timing, risk minimization and control of the business are not always obvious. A variety of methods are available to owners in this situation: using individual or company performance criteria for ownership transfers, using business cash flow for the primary source of funding for transfers and plans that take a multi-year approach.

POSSIBLE COMPONENT RECOMMENDATIONS:

- Ownership Skills Development Plan
- Sale of Ownership Interest (using cash, a note or bank financing)
- Bonus of Ownership Interest
- Gift of Ownership Interest
- Non-Qualified Deferred Compensation Plan (for controlling owners)
- GRAT (Grantor Retained Annuity Trust)
- Buy-Back Agreement for Minority Owner

IMPLEMENTATION AND FOLLOW THROUGH

The business owner and his or her advisors work together to design and finalize the Recommendations that will drive the owner toward reaching his or her objectives. Once Recommendation details and decisions are complete, an organized and systematic implementation of each Recommendation follows. Finally, they focus their attention on the next Component that will fit into the owner's comprehensive Exit Plan.

Business owners who can benefit from this Component typically say to themselves...

*"I want to give the business to my children,
but I've heard that the taxes will make that impossible."*

"I would certainly sell my shares to an insider if I thought I could get fair value for them."

*"I've promised the business to my management team,
but they don't have any money and now we are stuck!"*

