This issue brought to you by:

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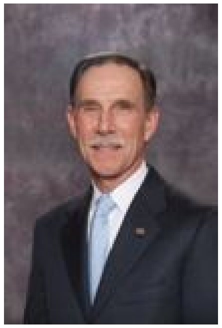

Elements of a Plan to Sell to Insiders

Today, we discuss the essential elements of a plan owners use to transfer a business to insiders that keep the owner in control until he or she is paid the sale price. If you suspect that the children, key employees, or co-owners you would pick to succeed you do not have the funds to cash you out, consider the following 10 elements that make insider transfers successful.

Element 1: Time

A transfer to insiders takes time: time to plan, time to implement, and time for successors to pay the departing owner. Typically, the more time owners take to transfer the company, the less risk they incur and more money they receive from the new owners.

control)?" If the answer is no, then it is probably best to consider other Exit Paths.

Element 2: Defined Owner Objectives

If owners are willing to devote the time necessary to transfer the business to insiders, they also must define and/or quantify their objectives. These may include the following.

- *Financial security and independence.*
- *Departure/retirement by a chosen date.*
- *Keeping family legacy or company culture intact.*
- *Rewarding key employees.*
- *Taking the business to the next level on someone else's dime.*

In a well-designed transfer plan, these objectives are met before control is transferred.

Element 3: Cash Flow

Healthy cash flow is critical to any sale. No buyer, whether outside third party or insider, wants to buy a company with anemic cash flow. However, in a transfer to insiders, cash flow assumes gargantuan importance, because initially, it is the major, if not sole, source of an owner's sale proceeds.

Element 4: Growth in Business Value

Like healthy cash flow, buyers look and pay top dollar for companies that have the potential to grow in value. In transfers to insiders, ownership transfers generally occur only if cash flow continues to grow. Thus, it is vitally important that owners contemplating an insider transfer install and cultivate Value Drivers before and during their exit transition. (For a quick refresher on Value Drivers, please contact us for one of our Value Drivers white papers.)

Element 5: Capable Management That Desires Ownership

Having a motivated management team capable of replacing the owner is hugely valuable to any buyer, especially when that buyer is an insider. The management team *management teams want to own their companies, but sometimes, management teams balk when they realize that they have to pay for ownership. Thus, assuring that the management team not only desires ownership but is willing*

Element 6: Minimize Taxes

Most owners don't want to pay any more taxes than they are legally required to pay. Owners who are contemplating insider transfers must take special care to minimize taxes. In an insider transfer, it is imperative that owners and their advisors structure the sale of their businesses to minimize taxes on the company's cash flow (pre-tax income), because without planning, cash flow is taxed twice: (a) once when the insider receives it (as the new owner) and then pays taxes before paying the owner to purchase the company and (b) when the owner pays taxes on the proceeds received.

One goal of tax planning is to subject the company's cash flow to taxation only once. Accomplishing this feat takes considerable planning, but it's worth the time and effort to save a third or more of the company's cash flow from this type of double taxation. One-time taxation means owners receive more money more quickly and thereby reduces the risk that the exiting owner will not be paid in full.

Element 7: Regulate an Incremental Transfer of Ownership

One of the most important advantages of a well-designed insider transfer plan is that it gives the owner the ability to regulate how ownership is transferred, when it is transferred, and how much ownership is transferred. If company performance falters, employees stumble, or the owner chooses instead to sell to a third party, a well-designed insider transfer Exit Plan keeps the owner in the driver's seat.

Element 8: Increasing Control Means Decreasing Risk

While business owners take risks every day, they don't relish risking their own and their families' future financial security. Therefore, we use strategies to keep voting and operational control in the hands of the owner. This shifts operational business risk from *ways we accomplish this for our clients, give us a call.)*

Element 9: Written Road Map With Deadlines

To succeed, we believe that owners must put their transfer plans in a written document and communicate it clearly and regularly to the eventual owners. If the plan is not in writing, it simply is not credible, and neither the owner nor his or her employees will take it seriously. More importantly, the written plan is the playbook for owners' exits. Owners will use their written plans to coordinate their actions with those of their advisors, thus reducing delays and costs. The plan should include a timeline and provide accountability (i.e., who will do what, when) for all participants, including the owner. Without incremental, staged checkpoints, it's nearly impossible for owners to exit on their terms. You'll never finish a marathon if you don't have mile-by-mile goals to meet.

Element 10: Owner Education

Owners need to understand the ins and outs of insider transfers because, unlike sales to third parties, they will control their businesses and the Exit Process until they've been paid in full. That education begins as you read this newsletter.

We would love to teach you more about the ins and outs of insider transfers, and share our experience and proven success in addressing these elements with you. Please contact us today to begin addressing the elements of an insider sale or to learn about which strategies we can help you implement to assure that you exit your business on your terms.

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