THE EXIT PLANNING REVIEW™

Issue 257 **May 21, 2013**

Eight Ways to Exit Your Company

According to Paul Simon, there are 50 ways to leave a lover. Not being as creative as Mr. Simon, we've only come up with eight ways for owners to leave their companies:

- Transfer the company to a family member;
- Sell the business to one or more key employees;
- Sell to key employees using an Employee Stock Ownership Plan (ESOP);
- Sell the business to one or more co-owners;
- Sell to an outside third party;
- Engage in an Initial Public Offering;
- Retain ownership but become a passive owner; and
- Liquidate.

Given the right circumstances, one of these paths may be appropriate for you. The process of determining exactly which path is best presents an obstacle to many owners. If, however, you wish to "leave your business in style," we suggest that you work through this three-step path selection process.

Establishing thoughtful objectives lays the foundation for an Exit Plan. Doing so well in advance of your departure gives you and your advisors the time necessary to make your goals a reality. As you work through this path selection process, you will synthesize or harmonize your exit objectives with the characteristics and capabilities of your company as well as with the external realities of the marketplace.

Choosing a Path

Step One

First, you, as an owner and with the help of your advisors, *identify your most important objectives*. (Please contact us for issues of this newsletter that further explain how to identify and quantify your objectives.) These objectives are both financial ("How much money will I need from the transfer of the business to assure my, and my family's, financial security?") and non-financial ("I want the company to stay in the family," or "I want to remain involved").

Internal and external considerations also impact an owner's choice of exit path. For example, the owner who wishes to transfer the business for cash, but is unwilling to trust his company's and his employees' fate to an unknown third party, may decide that an ESOP or carefully-designed sale to a key employee group is the best exit route.

Exterior considerations that may impact the choice of exit path include business, market or financial conditions. For example, the option of selling your business for cash to an outside buyer may be eliminated because of the anemic state of the M&A market.

Step Two

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Business Killers Presentation for Business Owners 5/21/13 or 5/23/13 6:30pm Fleming's Prime Steakhouse Radnor, PA RSVP 800-390-2149

The Exit Planning Review™
is published by
Business Enterprise Institute, Inc.

As you develop consistent objectives and motives, you then must *value your company and determine its marketability*. This analysis usually provides direction and can eliminate potential exit paths.

For example, if the value of a company is high and its marketability is low (perhaps because of the depressed state of the M&A market), an owner may decide that a sale of the business to an outside party is impractical. Instead, selling to an “insider” (co-owner, family member or employee) may be a better option.

Step Three

The final step in choosing a path is to *evaluate the tax consequences and strategies of various exit paths*. Many tax-minimizing techniques require, literally, years to fully implement and are often linked to the person or entity to whom you wish to transfer the business.

Using these three criteria (objectives, value and tax consequences), owners can begin to narrow the list of exit routes. It is far better for you to choose the appropriate exit path than to delay and allow circumstances to force you onto a particular path.

If you have already decided on a path, perhaps to transfer your company to your children, but have failed to implement the appropriate transfer and tax decisions, you have delayed your departure. Likewise, if you have decided to sell to a third party, but haven’t prepared your company to go to market when the time is right, you have not taken advantage of the tools that can make your company valuable in the eyes of a third party buyer. And as the economy has clearly demonstrated over the past few years, postponing decisions can increase business risk.

If you have not yet chosen a specific exit path, we encourage you to conduct open and frank discussions with your advisors about which path to take and when. Feel free to contact us for further suggestions on the pros and cons of each exit path.

Subsequent issues of The Exit Planning Review™ provide balanced and advertising-free information about all aspects of Exit Planning. We have newsletter articles and detailed White Papers related to this and other Exit Planning topics. If you have any questions or want additional Exit Planning information, please contact us.