

# The Seven Step Exit Planning Process™



There are many tools available to help individuals get into business, but few that help them get out. The Seven Step Exit Planning Process™ is a customized comprehensive approach to designing and implementing a business owner's successful exit from his or her business. Exit Planning uses an owner's unique personal objectives to convert his or her current reality into the desired outcome. The Exit Planning Process helps maximize the financial return, minimize tax liability, plan for contingencies, and increase the likelihood of a successful transfer of the business.

*“ I know that planning my business exit is important, but thinking about all the moving parts is overwhelming. Is there a way to approach this one step at a time? ”*

## STEP 1

### YOUR EXIT OBJECTIVES

Each business owner's unique objectives drive the creation of his or her Exit Plan. Step One establishes and tests your objectives so that your Exit Plan works to achieve your goals. Your key exit objectives are: (1) your desired departure date, (2) the value that you want or need from the business, and (3) the individuals or entities to whom you want to sell/transfer your business.

## STEP 2

### YOUR BUSINESS AND PERSONAL FINANCIAL RESOURCES

The starting point for reaching your exit objectives begins here: How much is your business worth today? How much cash flow does it currently generate? How much income do your non-business assets produce? We then project future cash flow as well as the future value of your business and non-business assets. Most importantly, the combination of Steps One and Two tells us the extent of value or cash flow increase that is necessary to meet your goals.



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### STEP 3

#### **BUILD AND PRESERVE VALUE**

Based on the first two steps, we make specific recommendations to help grow business value, protect existing value from the actions of others, and preserve company value by minimizing income taxes. Based on your company's needs, these recommendations may include installing or updating financial reporting systems, aligning employee performance with the attainment of your profitability goals or protecting proprietary information through covenants not to compete with key employees.

### STEP 4

#### **SELLING YOUR COMPANY TO A THIRD PARTY**

If you choose to sell your company to a third party, we design strategies to improve the likelihood of a successful sale, minimize the taxes you will pay upon sale, and maximize your sale price and terms. If you choose instead to retain ownership or transfer the company to insiders, you will skip this Step.

### STEP 5

#### **TRANSFERRING YOUR OWNERSHIP TO INSIDERS**

Insiders are children, co-owners or key employees who often do not have the financial resources to pay owners what their companies are worth. If you choose to transfer your company to insiders, in Step Five we create a detailed plan to ensure that you receive the money you desire from your business, minimize the risk of non-payment and ensure that you retain control of the business until you have been fully paid.

*“I want all aspects of my planning tied together in one coherent plan.”*

### STEP 6

#### **BUSINESS CONTINUITY**

As part of your Exit Plan, we coordinate your business continuity planning with your lifetime objectives. The purpose is to ensure that your goals (such as transferring the company to the successor of your choice and having your family receive full value for your ownership) are met whether you survive to see your business exit or not!

### STEP 7

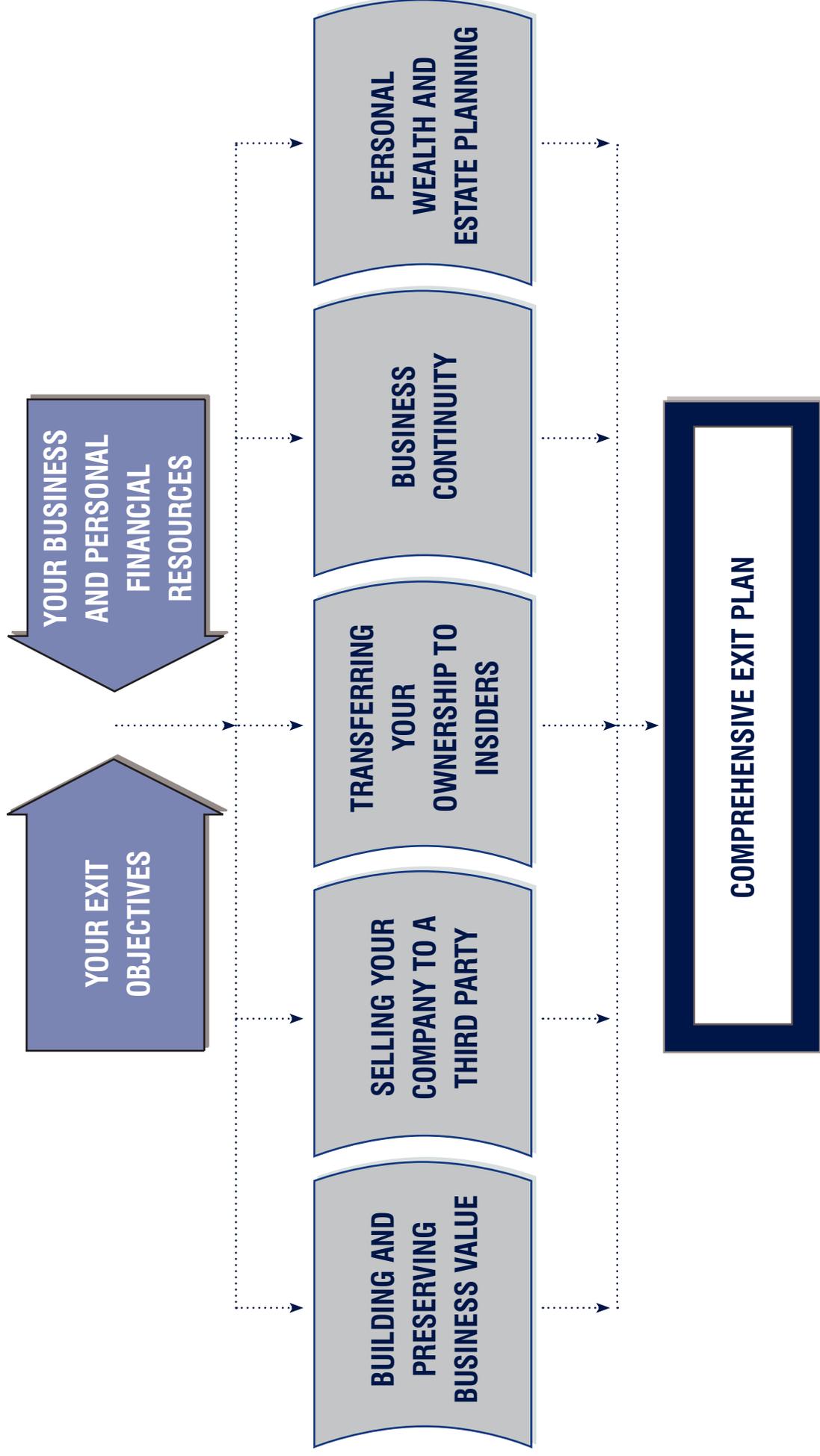
#### **PERSONAL WEALTH AND ESTATE PLANNING**

In Step Seven, we coordinate your estate plan with your Step One objectives. Our design emphasizes tax efficiency (in the transfer of wealth or of the business to family members or charity) and ensures that your family receives the amount of annual income necessary to satisfy the financial security goal you set in Step One.

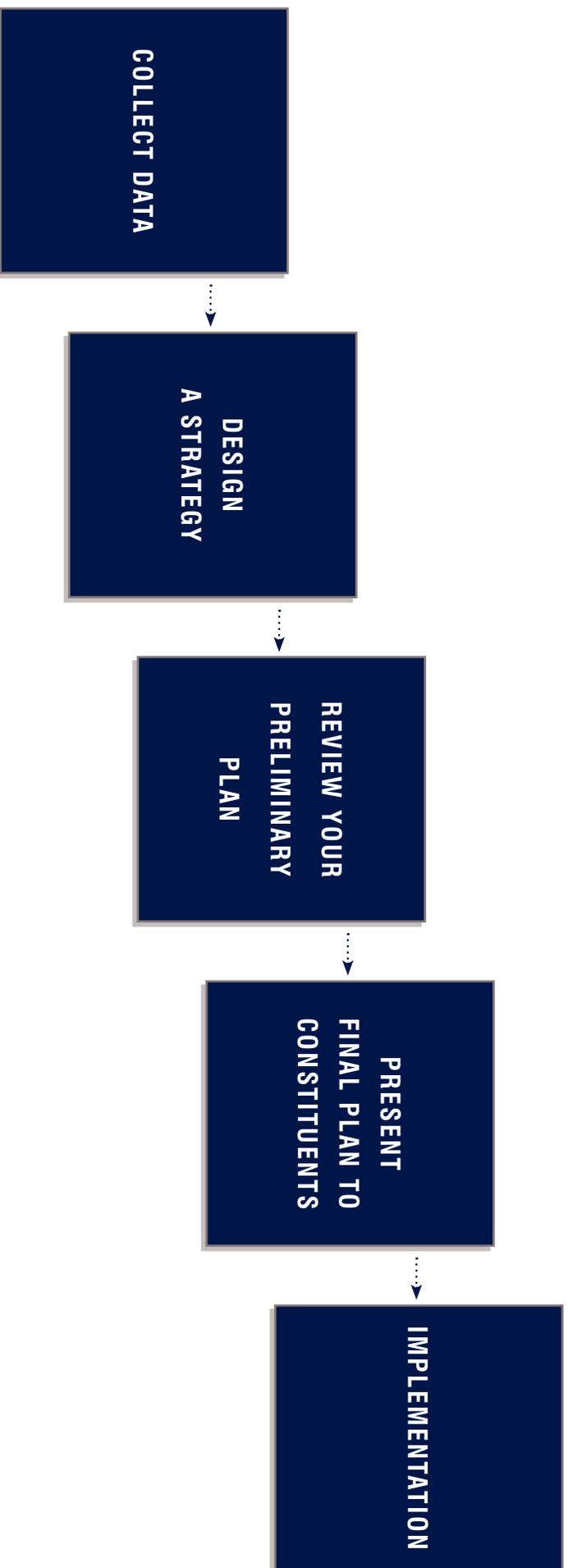
# Components of a Comprehensive Exit Plan

*within*

The Seven Step Exit Planning Process™



# Creating Your Exit Plan: Step by Step



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# Build and Preserve Value

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If you choose a staged approach, you and your planning advisor will prioritize the elements of your Exit Plan and complete each component sequentially, rather than all at once. You and your planning advisor will identify the Component(s) of the Exit Plan that you determine can most quickly be leveraged to achieve positive results. Your planning advisor will then create a schedule for addressing and completing that Component before moving on to the next.

**If you choose to focus on Building and Preserving Business Value, we take the following Exit Planning steps:**

## STEP 1

### **IDENTIFY YOUR EXIT OBJECTIVES**

In choosing this Component, your goals may include: reaching a target business value, protecting valuable business assets, developing an independent and strong management team and motivating and retaining key employees. We will work with you to identify the goals you hope to achieve by completing this Component of your Exit Plan. We will make sure that in achieving these goals, we move you closer to reaching your overall Exit Planning objectives.

## STEP 2

### **IDENTIFY YOUR BUSINESS AND PERSONAL FINANCIAL RESOURCES**

In addition to identifying what goals you want to achieve, it is equally important to determine what you have, namely, the current value of the business and its current and projected cash flow. You and your planning advisor use current business value and projected cash flow to determine which planning tools are best suited to move you closer to your objectives. Without an initial determination of what you have, we cannot measure our progress toward your stated objectives.



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**BUILD AND PRESERVE BUSINESS VALUE**

The elements that build the value of a business or preserve the value that you have worked so hard to create and that buyers will pay for are called Value Drivers. Value Drivers include a stable and motivated management team, a realistic growth strategy and operating systems that improve the sustainability of cash flows. In this Component, you and your advisors identify which Value Drivers in your business are important to meeting your objectives and design strategies to protect the tangible and intangible value of your business.

**POSSIBLE RECOMMENDATIONS  
TO BUILD AND PRESERVE VALUE:**

- Management Team Development Plan
- Plan to Transition Management Responsibility
- Employee Compensation Review and Analysis
- Qualified Retirement Plan Changes
- Key Person Insurance Planning
- Key Employee Incentive Compensation Plan (Stock Bonus Plan, Phantom Stock Plan, Stock Appreciation Rights Plan, Nonqualified Deferred Compensation Plan, Cash Bonus Plan)
- Separation of Business Assets from Business Operations
- Covenant Not to Compete

**IMPLEMENT YOUR PLAN**

You and your advisors work together to design and finalize the Recommendations that, when implemented, help you to reach your objectives. Once you finalize Recommendation details and decisions, your advisors will begin to systematically implement each. At that point, you can turn your attention to the next Component of your comprehensive Exit Plan.

**You can benefit from a step-by-step approach to Exit Planning if you want:**

***To strengthen your company to better withstand competitive pressure.***

***To create a more systematic way to attract, motivate and retain your best employees.***

***To build the business value you need to one day sell or transfer your company for the amount you need to retire comfortably.***

# Selling Your Company to a Third Party

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### **If you choose to focus on Selling Your Company to a Third Party, we take the following Exit Planning steps:**

#### **STEP 1**

##### **IDENTIFY YOUR EXIT OBJECTIVES**

We will work with you to identify the goals you hope to achieve by completing this Component of your Exit Plan. We will make sure that in achieving these goals, we move you closer to reaching your overall Exit Planning objectives. In choosing this Component, your goals may include: restructuring the business in order to minimize taxes at its sale, motivating employees to remain involved with the business through a transition to new ownership or organizing the business' internal operations to facilitate the sale process.

#### **STEP 2**

##### **IDENTIFY YOUR BUSINESS AND PERSONAL FINANCIAL RESOURCES**

In addition to identifying what goals you want to achieve, it is equally important to determine what you have, namely, the current value of the business and its current and projected cash flow. Your advisors will use current business value and projected cash flow to predict the price and terms that may be attainable from a third party buyer and to help you set the parameters of what you will and will not accept in the transaction. We will include the value and future performance of your personal non-business assets in this analysis so that the after-tax proceeds of a sale of the business do not fall short of your financial expectations.



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## SELLING YOUR COMPANY TO A THIRD PARTY

Preparation for the sale of a business to a third party buyer and the completion of the transaction itself require focus, planning and stamina. Many business owners do not realize the complexity and details involved in a third party sale until they are well into negotiations. We will help you to take the appropriate steps *before your put your business on the market* so that the sale process can be as organized and as efficient as possible. In doing so, we can reduce stress on both you and your business while maximizing the likelihood that the transaction will achieve your goals.

### POSSIBLE RECOMMENDATIONS TO PREPARE FOR A SALE:

- Begin Pre-Sale Due Diligence
- Reduce Company Debt
- Consider Various Tax Planning Strategies
- Identify Potential Buyers
- Create Stay Bonus Plan for Employees
- Consider Options for Business Real Estate

## IMPLEMENT YOUR PLAN

You and your advisors work together to design and finalize the Recommendations that, when implemented, help you to reach your objectives. Once you finalize Recommendation details and decisions, your advisors will begin to systematically implement each. At that point, you can turn your attention to the next Component of your comprehensive Exit Plan.

You can benefit from taking this Step of the Exit Planning Process if you:

***Have never sold a business before and wonder what is involved.***

***Want to prepare yourself and your business for sale before negotiations begin.***

***Know you want to sell your business, but aren't sure how to start the process.***

# Transferring Your Business to Insiders

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**If you choose to focus on Transferring Your Ownership to Insiders, we take the following Exit Planning steps:**

### STEP 1

#### **IDENTIFY YOUR OWNER OBJECTIVES**

We will work with you to identify the goals you hope to achieve by completing this Component of your Exit Plan. We will make sure that in achieving these goals, we move you closer to reaching your overall Exit Planning objectives. In choosing this Component, your goals may 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. Once we analyze your financial needs, we can determine how much cash you must receive from a transfer of your ownership interest.

### STEP 2

#### **IDENTIFY YOUR BUSINESS AND PERSONAL FINANCIAL RESOURCES**

The value of your business, its expected future performance and your non-business financial resources are 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 proceeds you receive from the transfer of your business must fill the gap between your other financial resources and your post-exit financial needs.



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## TRANSFERRING YOUR OWNERSHIP TO INSIDERS

To transfer your ownership interest—successfully—to insiders (co-owners, family members or key employees) we must: 1) achieve your objectives related to value and timing; 2) minimize your risk; and 3) keep you in control of the company until you have received full payment for the company. To accomplish this, we may use individual or company performance criteria for ownership transfers, business cash flow for the primary source of funding for transfers and/or create plans that unfold over a number of years.

### POSSIBLE RECOMMENDATIONS TO TRANSFER YOUR BUSINESS TO INSIDERS:

- 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
- GRAT (Grantor Retained Annuity Trust)
- Buy-Back Agreement for Minority Owner

## IMPLEMENT YOUR PLAN

You and your advisors work together to design and finalize the Recommendations that, when implemented, help you to reach your objectives. Once you finalize Recommendation details and decisions, your advisors will begin to systematically implement each. At that point, you can turn your attention to the next Component of your comprehensive Exit Plan.

**You can benefit from taking this Step of the Exit Planning Process if you:**

***Want to give the business to your children,  
but believe that taxes will make that impossible.***

***Would choose to sell your ownership to an insider  
if you thought you could get fair value for it.***

***Have promised the business to you management team,  
but realize that they don't have any money!***

# Business Continuity

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**If you choose to focus on Business Continuity, we take the following Exit Planning steps:**

## STEP 1

### IDENTIFY YOUR EXIT OBJECTIVES

Owners often choose this Component because they want to be sure that they will *receive full value* for their ownership interest if certain events occur (such as death, disability or retirement). At the same time, owners also want assurance that they will *pay fair value* if they are the ones required to purchase the ownership of a co-owner. Other owners choose this Component because they want to put in place the structures necessary so that the business can stand on its own, be financially independent from the owner and continue to thrive after he or she is gone.

## STEP 2

### IDENTIFY YOUR BUSINESS AND PERSONAL FINANCIAL RESOURCES

Once we identify your objectives, it is critical to determine: current business value, a method for calculating future business value, projected future cash flow from the business and the amount of your non-business financial resources. We use this financial information to set expectations in business continuity planning and to verify that a plan is reasonable for all parties.



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## BUSINESS CONTINUITY

Business continuity planning encompasses a wide range of consequences that may follow the departure of a majority owner or a member of a controlling owner group (because of death, disability, retirement or termination). These issues frequently keep business owners awake at night wondering what could happen to their ownership interest and to the business itself. Business continuity planning protects your right to receive payment for your interest, provides certainty about what you may be required to pay for the interest of a co-owner and supports the business after an owner's departure so that it can continue to thrive.

### POSSIBLE RECOMMENDATIONS TO ENSURE BUSINESS CONTINUITY:

- Business Insurance for Continuity Planning
- Stay Bonus Plan
- Business Continuity Guidelines
- Buy-Sell (Shareholder) Agreement
- Wage (Salary) Continuation Plan
- Retaining Key Employees After Death or Disability
- Plan for Financial Independence of the Company

## IMPLEMENT YOUR PLAN

You and your advisors work together to design and finalize the Recommendations that, when implemented, help you to reach your objectives. Once you finalize Recommendation details and decisions, your advisors will begin to systematically implement each. At that point, you can turn your attention to the next Component of your comprehensive Exit Plan.

You can benefit from taking this Step of the Exit Planning Process if you:

***Are no longer comfortable with the “understanding” you have with your partner(s) about what you would do if one of you dies.***

***Believe that your spouse would be incapable of running the business if you were to die or become incapacitated.***

***Wish to protect the income stream that supports your family should something happen to you.***

# Personal Wealth and Estate Planning

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**If you choose to focus on Personal Wealth and Estate Planning, we take the following Exit Planning steps:**

### **STEP 1**

#### **IDENTIFY YOUR OWNER OBJECTIVES**

Owners choose to work on this Component of their planning because they are interested in issues related to family income, personal assets and family harmony. Typically, owners want to maintain or replace the income stream they derive from the business even after they are no longer in an ownership position. Protecting personal assets from liabilities of the business can also be critical to wealth preservation. You may wish to begin your planning here so you can manage transfers of assets during life and at death, as well as manage expectations of family members.

### **STEP 2**

#### **IDENTIFY YOUR BUSINESS AND PERSONAL FINANCIAL RESOURCES**

In this Component, we must establish current values of both business and non-business assets, and make projections of future values. Valuation techniques, and possibly value discounting, provide the parameters within which planning can occur. Estimates of future values, estate tax liabilities and income streams generated by business and non-business assets frame expectations and strategies in this Component.



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## PERSONAL WEALTH AND ESTATE PLANNING

Business owners are unique in the world of personal wealth and estate planning because their businesses typically represent a significant portion of both their personal net worth and their annual income. If you have children active in your business, your planning is even more complex. In this Component, we will create a well-balanced plan that addresses: 1) protecting personal assets, 2) managing wealth both now and in the future and 3) promoting harmony in the family.

### POSSIBLE RECOMMENDATIONS FOR PERSONAL WEALTH AND ESTATE PLANNING:

- Existing and Recommended Estate Planning Documents
- Personal Asset Protection Planning
- Personal and Family Insurance
- Transfers of Specific Non-Business Assets
- Personal Wealth Management Plan
- Allocation of Business Cash Flow After Death
- Bequests to Key Employees Upon Owner's Death
- Transfer of Business Real Estate Upon Death

### IMPLEMENT YOUR PLAN

You and your advisors work together to design and finalize the Recommendations that, when implemented, help you to reach your objectives. Once you finalize Recommendation details and decisions, your advisors will begin to systematically implement each. At that point, you can turn your attention to the next Component of your comprehensive Exit Plan.

**You can benefit from taking this Step of the Exit Planning Process if:**

***Your business and personal assets are so closely intertwined that you can't plan for one without also planning for the other in the event of your death.***

***You want to balance your estate among children – those involved in the business and those who are not – in a way that is fair.***

***You want to protect your heirs from the effects of estate taxes, but don't know how.***