

GUARDIAN°

Tips for successfully transitioning your Business

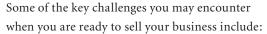
work hard to keep your business growing and staying ahead of the competition. You are innovative and have something unique to offer. You have the opportunity your life in any direction you choose. Whether you are a proprietor or a member of a considering a change, now selling your business and creating a new success story, this Guide is designed to give

Why Preparation is Important

There are a variety of reasons why business owners consider selling their company. For many, retirement is a driving factor. Other business owners may simply want a career change, aren't having fun any more, are experiencing competitive pressures or are looking for financial diversification.

Whatever your reason, planning to transition your business takes time, a plan, forward thinking and helps you avoid eye opening surprises. Consider these points:

- When do you want to sell your business?
- · Do you have a buyer?
- How much do you think your business is worth and how did you arrive at that number?
- Will the proceeds provide enough money for your retirement?
- How will you continue to build and optimize the value of your business?



- Maintaining a lifestyle and becoming financially secure without business income
- Identifying the best type of buyer who has the necessary resources
- Understanding the terms of the transaction including when and how you will get paid
- Minimizing the risks associated with the terms of your arrangement
- Minimizing estate and/or income taxes



The facts regarding your business and your life are different from other business owners. Planning to transition your business is not a one size fits all approach. Every business is different and unique and it's important for you to explore a range of possible outcomes. By taking a flexible approach you are better able to identify the best type of buyer and the terms of a transaction that work best for your needs.

You don't have to go-it-alone. Selling or transferring your business can be a big financial event, the earlier you get started the better your chances of creating the best outcome. Start now to devise strategies to extract cash from your business through refinancing or selling the business in part or in full. Work with experienced financial advisors who can guide you through the process. Experienced advisors can help increase the value of your business, help you to preserve wealth, know how to get money out of your business and will work with you to better understand your personal income requirements during retirement.

Planning to transition your business takes time, a plan, forward thinking and helps to avoid eye opening surprises.

Consider the following eye opening real life scenarios.







When do you want to sell your business?

Mark is a seasoned business owner and started his construction company (AJEX) in 1979. He has always lived on less than his income and although, he is in a top marginal tax bracket, he has been fortunate enough to accumulate wealth outside of his business. He has three adult children from his first marriage and two of them work in the business. Mark has spent a great deal of time grooming these two children to take over the daily responsibilities when he retires. Today, Mark is thinking the time is right - he is ready to retire. He doesn't need top dollar for AJEX because he is already financially secure. He wants to sell the company to his two children for the lowest amount that would not result in gift or estate taxes. The children are ready. They have hands-on experience, great relationships with the suppliers and good credit. Everything appears to be ideal except the bank will not grant a loan to his children without his co-signature.

Eye Opener #1

Your buyer(s) may not be financially prepared

If you have to personally guarantee a business loan, you may not feel like you ever left your business. Oftentimes, when you sell a business to "insiders" it involves relying on attaching to post-sale payment streams from the business.

Whether you finance the note, personally guarantee your buyer's loan, design an unfunded deferred compensation arrangement or something else, you may bear a risk of loss for a period of time. What appears to be a simple question "when do you want to sell your business" may still leave you tied to the ongoing success of the business.

Exit Planning Strategy #1

Plan for a possible post-sale financial concern

One way to address this scenario is to develop a plan to sell your business years before you want to leave. That way you can stay in the business for a few more years and help to minimize your risks until you get paid. As a business owner, you can retain control of the company after the sale by selling most of the company stock as non-voting stock and keeping the voting stock until you are paid, this approach also works with S-Corporations. Other planning mechanisms may include stock bonuses, deferred compensation arrangements and estate planning gifting techniques.

If you plan to sell your business to a third party and you take installment payments, as the seller you may want key person coverage (life and DI) on the buyer so that your payment is secured.

There are many transition planning mechanisms to help manage post-sale financial risk. The best way to eliminate this risk is to get started at least several years before you want to completely leave the business.









How much do you think your husiness is worth?

Lisa inherited her established restaurant three years ago when her husband suddenly passed away. She never intended to own/run her own business. She was a stay-at-home mom, really enjoyed managing the household and enjoyed a comfortable lifestyle. Now, unexpectedly she finds herself working day and night in the restaurant and dreams of the day she can sell it. The other day one of her regular customers indicated when she was ready they would like to purchase the business. Like most business owners, Lisa re-invests heavily in the business and the business represents most of her wealth. She also has an outstanding loan on the business. She thought that since the business was doing well and she owns the real estate, she could sell it at a price what would allow her to continue her lifestyle in retirement.

Eye Opener #2

The value of your business may be less than you think

Lisa has been living off of the business and hasn't accumulated any wealth outside of the business. Additionally, she has no retirement funds and real estate values have decreased over the past few years. Her customer who expressed interest in purchasing her restaurant has money and offered Lisa half of what she thinks the business is worth. Lisa can't accept less than what she thinks its worth because the mortgage on the property is greater than its current market value.

What seems like an ideal buyer just fell into her lap, but Lisa finds herself in a situation where she must continue to work until she can accumulate enough money outside of the business or grow the value of the business.

Exit Planning Strategy #2

Plan to accumulate wealth outside your business and have a current business valuation

Experts indicate that your wealth should be diversified and not all tied to your business. This is one reason why qualified plans are so important for business owners because they provide an opportunity to build wealth outside of your business.

Additionally, a bank might not allow ownership of a business to be transferred when there are outstanding business loans. Key person coverage to pay off bank debts may be used to allow the sale to take place.

You should also have a business valuation conducted by an independent third party who has experience with business valuations so there are no surprises when it comes time to sell the business. Your business may be worth more or less than what you think. While the question "how much do you think your business is worth?" seems straightforward, it is important to understand what drives value and to have realistic expectations and consider a flexible range of values, rather than a single, fixed value. A financial advisor can help you to manage the business for maximum value so you can obtain the highest possible value in a sale.



Preparing Your Transition – 5 Steps

Does Mark's or Lisa's story sound familiar? Now may be the ideal time for you to review your succession plans (or create plans if you currently do not have any) to ensure they are up to date and will carry out your planned intentions. The following 5 steps set the foundation for an effective transition.



1. Determine your personal and professional long-term goals and objectives

What are your goals and objectives including what, when and how do you want to accomplish them. Give thought to these goals because they will help determine your overall planning requirements including financial planning, retirement planning, business planning, business succession-transition planning, tax planning and estate planning strategies.



2. Determine your financial requirements and approaches for achieving them

Consider your financial requirements during retirement and how much you will need to maintain your lifestyle. Think about where the money will come from.

If you are like most other business owners, you may have most of your money intertwined with the business. Your financial advisor can help you to identify areas where you can receive income during retirement.

3. Identify and develop your management team

You will want to decide who will be the future management of your company. Evaluate the team who is able to help you maximize the value of your business. Whether it is key employees, family members or a combination of the two, you should begin delegating dayto-day responsibilities. This approach will help to develop the new management team and give them time to grow into their new responsibilities. If you do plan to transition your business to family members, address ways to help ensure key employees stay with the company. Effective plans may include employment agreements, nonqualified deferred compensation arrangements, stock option plans and change of control agreements.

4. Determine who will own your business and how to transfer your interest in the business to the "new" owner



The question of who will take over the reins will be a major factor in preparing the disposition of your business. Other areas to consider include evaluating various sales strategies you may use to transfer ownership such as, installment sales, private annuities, exchange of stock and/or self-cancelling installment notes. There may also be estate freezing techniques such as, grantor retained annuity trusts and installment sales to intentionally defective grantor trusts which may prove beneficial.



5. Minimize transfer taxes and prepare your estate plan

While this step in the process is listed as number 5, it is by no means the least important. This step involves designing strategies to transfer ownership of your business so you minimize gift and estate taxes. You will want to anticipate what your federal estate taxes will be at the disposition of your business. Your financial advisor can review with you the current situation on federal estate tax and based upon your personal circumstances, can help design the best approach.

Assumptions about the details can lead to misunderstandings and costly estate and income taxes.

Transitioning Approaches ... Your Choice for New Ownership

If you are like most other business owners, the relationship between your business and you are often intertwined. Your business represents your biggest investment. Whether you are considering selling your business, passing it on or simply closing it, the choice is based on many personal reasons.

Understanding your transitioning strategy options and properly structuring the transaction can often produce significant value upon the disposition of your business. The sooner these options are understood, the better positioned you are to creating your next success story.

When you plan to transition your business, you have several options including:

- 1. Transferring to a family member by sale or gift
- 2. Selling to a current employee
- 3. Selling to a third-party
- 4. Selling to a co-owner
- 5. Liquidating
- 6. Fragmenting the business into smaller businesses

Although there are many ways to transfer ownership like the ones mentioned above, there are other options you should be aware of, such as:

- minority sales and recapitalizations
- variations that can allow for retention of partial ownership or management control
- IPOs (initial public offerings)
- ESOPs (employee stock ownership plans)

The approach that works best for you is based upon your individual circumstances, preferences and

goals. Similar to your developing a management team, you should also consider coordinating a team of advisors who can help with the planning process. No one person is likely to have all the necessary skills necessary to help you transition your business. The process does not need to be overwhelming. There are several individuals who should be essential members of your transition planning team. Engaging an intermediary team

will enable you to continue to focus your attention

on growing your business.

The outline below provides a number of areas you should consider. Your Financial Advisor can coordinate the team that can best assist you.

CONSIDERATIONS	TEAM MEMBER Who Can Assist
Business Brokers	Attorney/CPA/Financial Advisor
Business Continuation Agreements	Attorney/Financial Advisor
Business Planning	CPA/Financial Advisor
Business Valuation	CPA/Business Valuation Firm
Capital and Liquidity Requirements	CPA/Financial Advisor
Coordination of Team	Financial Advisor
Estate Planning	Attorney/CPA/Financial Advisor
Funding Sale of the Business	CPA/Banker/Financial Advisor
Insurance for Funding	Financial Advisor
Negotiating Contracts	Attorney
Personal Financial Planning	Financial Advisor
Retirement Financial Planning	Financial Advisor
Setting Up Trusts	Attorney/Financial Advisor
Tax Planning	Attorney/CPA

Positioning the Business - A Pre-Sale Checkup List

Most likely, you will encounter selling your business only once in your lifetime. Planning this transition provides an opportunity for you to take a fresh look at where your company is headed, establish new goals, identify any missing pieces or talent, and take action steps necessary to help drive more value. Early planning will also help you to manage your tax, funding and legal implications associated with the transaction.

- Maximize the Value/Sale
- Minimize the Taxes
- Successfully Transfer or Sell the Business
- Exit the Business on the Date You Choose

A pre-sale checkup list is an essential diagnostic overview of your personal situation and helps to pinpoint areas that may need to be shaped up.



PERSONAL

How much longer do you plan to work in your business before retiring or transitioning it?	years
When you transition your business, what	☐ Sell it to a family member
approach do you plan on using?	☐ Gift it to a family member
	☐ Sell it to a key employee
	☐ Sell it to an outsider
	☐ Sell it to a co-owner
	☐ Close the business
	☐ Liquidate it
	☐ Fragment into smaller businesses
When you no longer work in your	☐ Sale of the Business
business, where will you get your	☐ Qualified Plan
retirement income?	☐ Social Security
	☐ Other employment
	□ IRA
	☐ Non-Qualified Deferred Comp Plan
	☐ Investments/Personal Savings
	☐ Life Insurance
	□ Annuities
	□ Stock Options
	☐ Real Estate
	□ Not Sure
What percentage of your total wealth is	□ 25 %
made up by your business?	□ 50 %
	□ 75 %
	□ 100%

If you stopped working tomorrow due	☐ It would need to be sold
to a premature death or an unexpected	☐ It would have to be closed
accident/illness, what would happen to your business?	□ It would continue
If you stopped working tomorrow due to a premature death or an unexpected	☐ It would stop
accident/illness, what would happen to your household's income?	□ It would continue
For how long?	
Where would the money come from?	
Do you know how much money you will need for a comfortable retirement?	□ Yes □ No
FINANCIAL	
IMANCIAL	
How much do you think your business is worth?	\$
Where did you get this number?	☐ Independent Business Valuation Appraiser
	□ CPA
	☐ My best guess
Are all the necessary business taxes paid and up-to-date?	□ Yes □ No

LEGAL

Have you identified various transitioning options and related trade-offs?		Yes	No	
Do you have any contracts with co-owners, customers, suppliers, employees, banks and/or landlords?		Yes	No	
Are there any pending lawsuits or potential litigation against the business?		Yes	No	
				Ц
MISCELLANEOUS				
Do you have a list of likely buyers and understand how they may impact the value of your business?		Yes	No	
Do you have a list of likely buyers and understand how they may	0	Yes	 No No	



No matter how you acquired your business whether you inherited it or built it from scratch ambitions change over time.

Whether you are a sole proprietor or a larger corporation, selling your business does not have to be difficult. There are some common characteristics and necessary steps for selling or transferring a business. Planning for the day when you will sell or transfer your business is exciting and is a long-term, multi-dimensional process which you may need to revisit as your business and life unfolds. It is important to work with financial advisors who can help you along the way.

The net proceeds you receive can be significantly affected not only by the sale value but by the taxes payable on the sale or the estate taxes on a transfer. With proper planning and guidance from the right advisor, you can maximize the net proceeds, minimize the taxes, successfully transfer or sell to the successor of your choice and exit your business on the date you choose.

After completing the pre sale checklist, schedule an appointment with your Financial Advisor to consider your personal approach.

If you're not already working with a Financial Advisor, visit www.GuardianLife.com to find one in your area.

As the owner of your business, you've built the company into what it is today. By planning now, you can help ensure that your business continues to thrive for many years.



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