



PLAN NOW...
Directions are not enough!



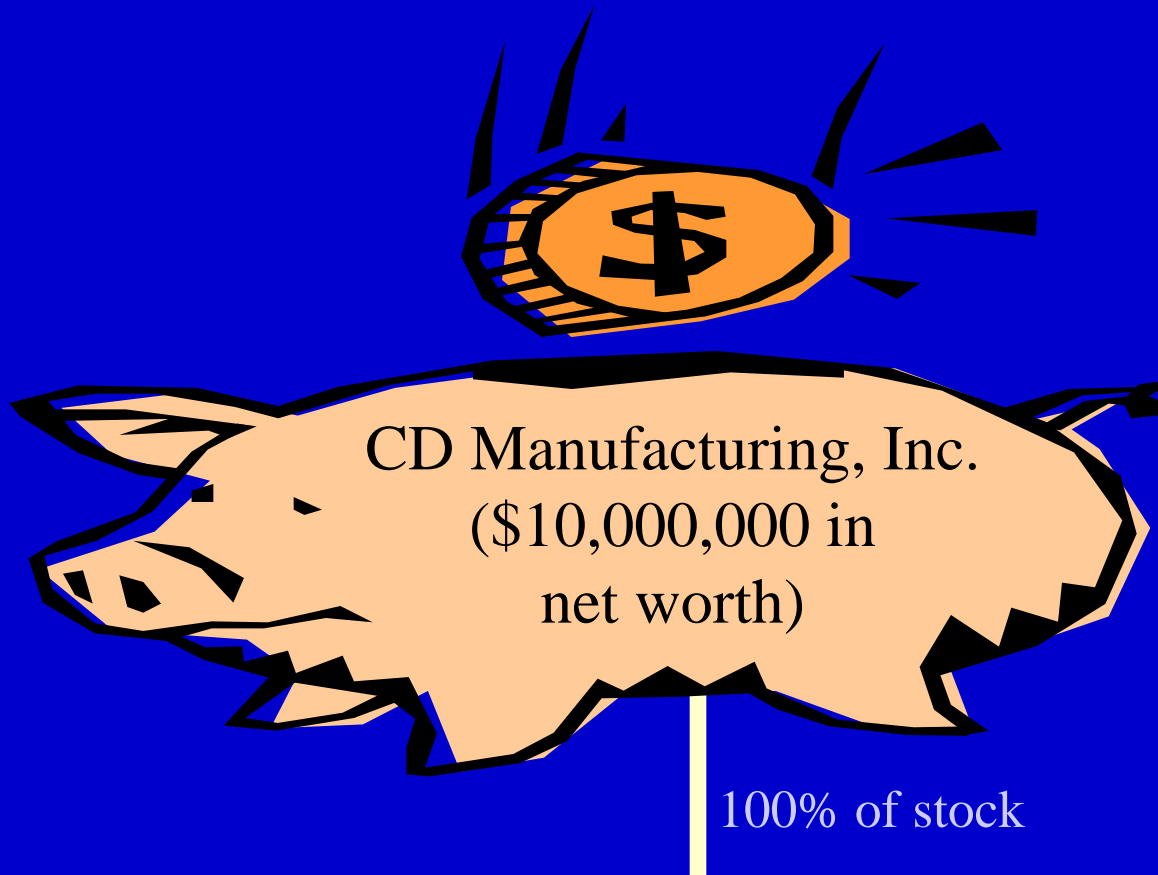
Founder of CD Manufacturing
is heart attack victim

CD MANUFACTURING, INC. CLOSES
WITH DEATH OF FOUNDER

LIQUIDATION SALE SAVINGS
...all assets must be sold for taxes

CD Manufacturing, Inc.

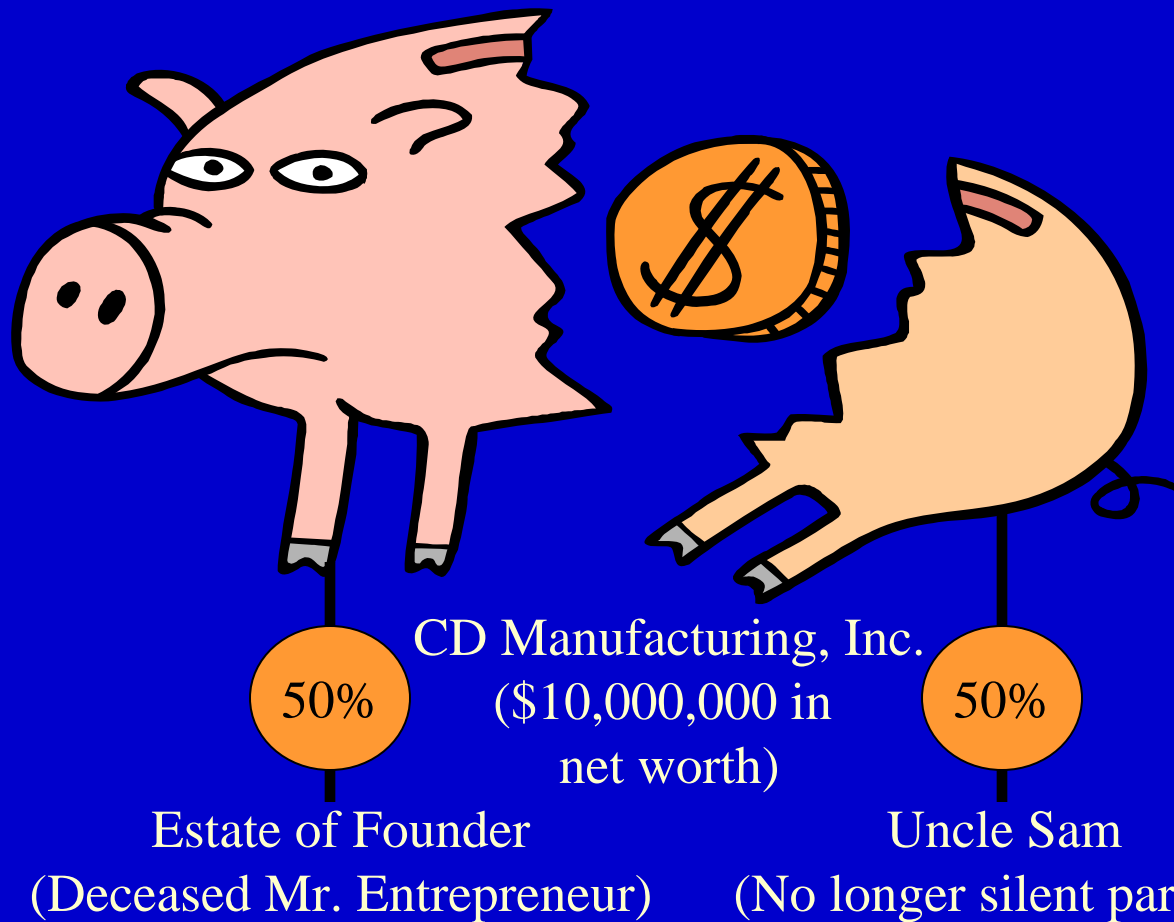
Before death of founder



100% of stock
EDDIE ENTREPRENEUR

CD Manufacturing, Inc.

After death of founder
(An ownership illusion shattered)

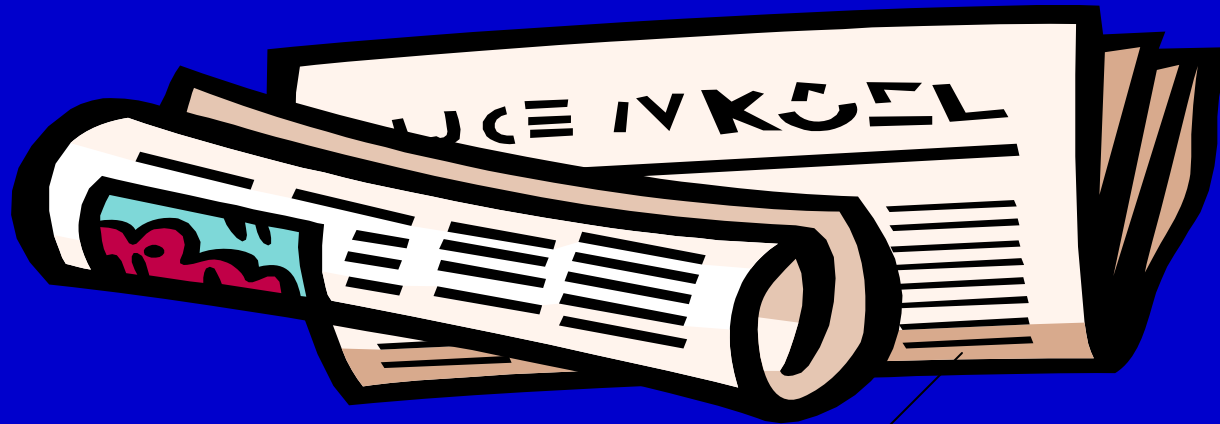




Prominent Business Owner Dies
In Air Crash

Family factions file suit
for control of Money, Inc.

**MONEY, INC. ANNOUNCES
FURTHER LAYOFFS**



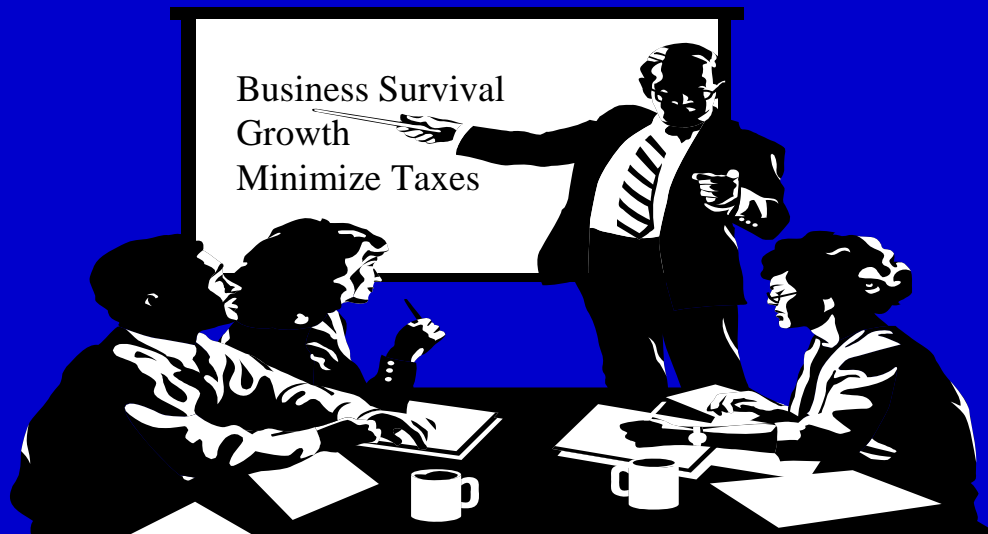
Business Obituaries

1. CD Manufacturing, Inc. - \$
2. Money, Inc. – People

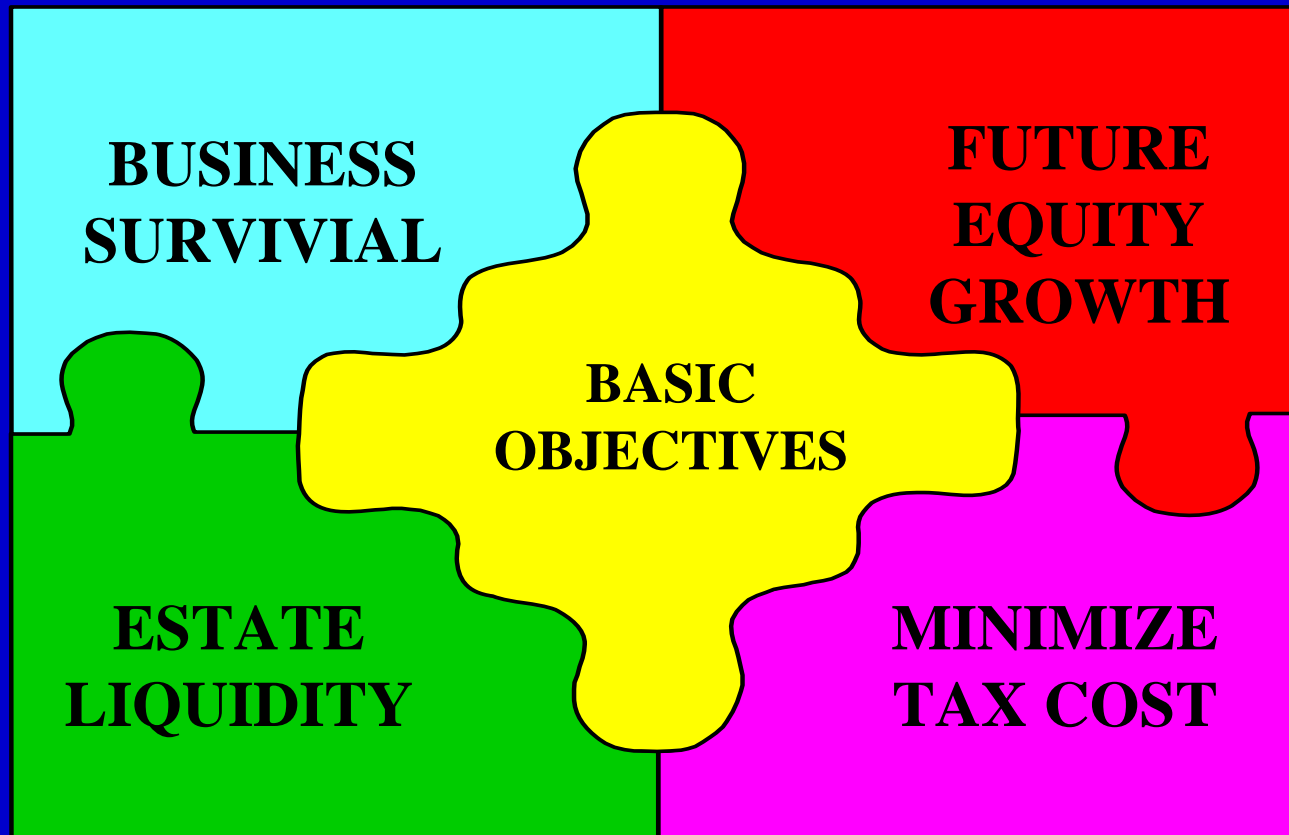
3. What awaits you?

Business Succession Planning

Planning for the transfer of
Present Ownership and Management
of the closely held business
to others



The basic objectives of succession planning...



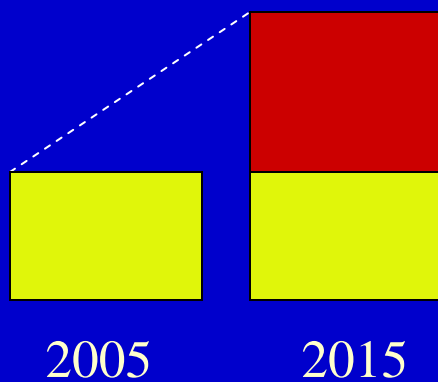
What is Future Equity Growth?

Asset Increasing
at 8% Growth Rate

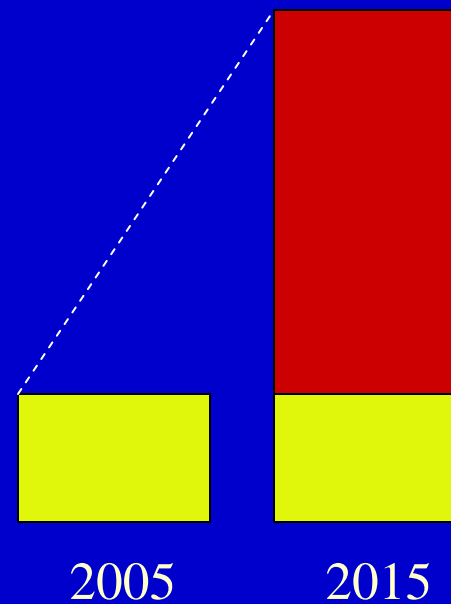
\$4.41 Million

2.16 Million

1 Million



Asset Increasing
at 16% Growth Rate





Business Growth and Estate Taxes

	2005	2006
<i>Exemption:</i>	1,500,000	2,000,000
<i>Tax Rate:</i>	47%	46%
20,000,000	8,695,000	8,280,000
10,000,000	3,995,000	3,680,000
5,000,000	1,645,000	1,380,000
3,500,000	940,000	690,000
2,000,000	235,000	0
1,500,000	0	0
1,000,000	0	0

VALUE

Average p/e multiple for S&P company: 24.9 (As of 12/04)

S&P Ten year p/e range: 17 to 46 (1994 to 2004)



Business Growth and Estate Taxes

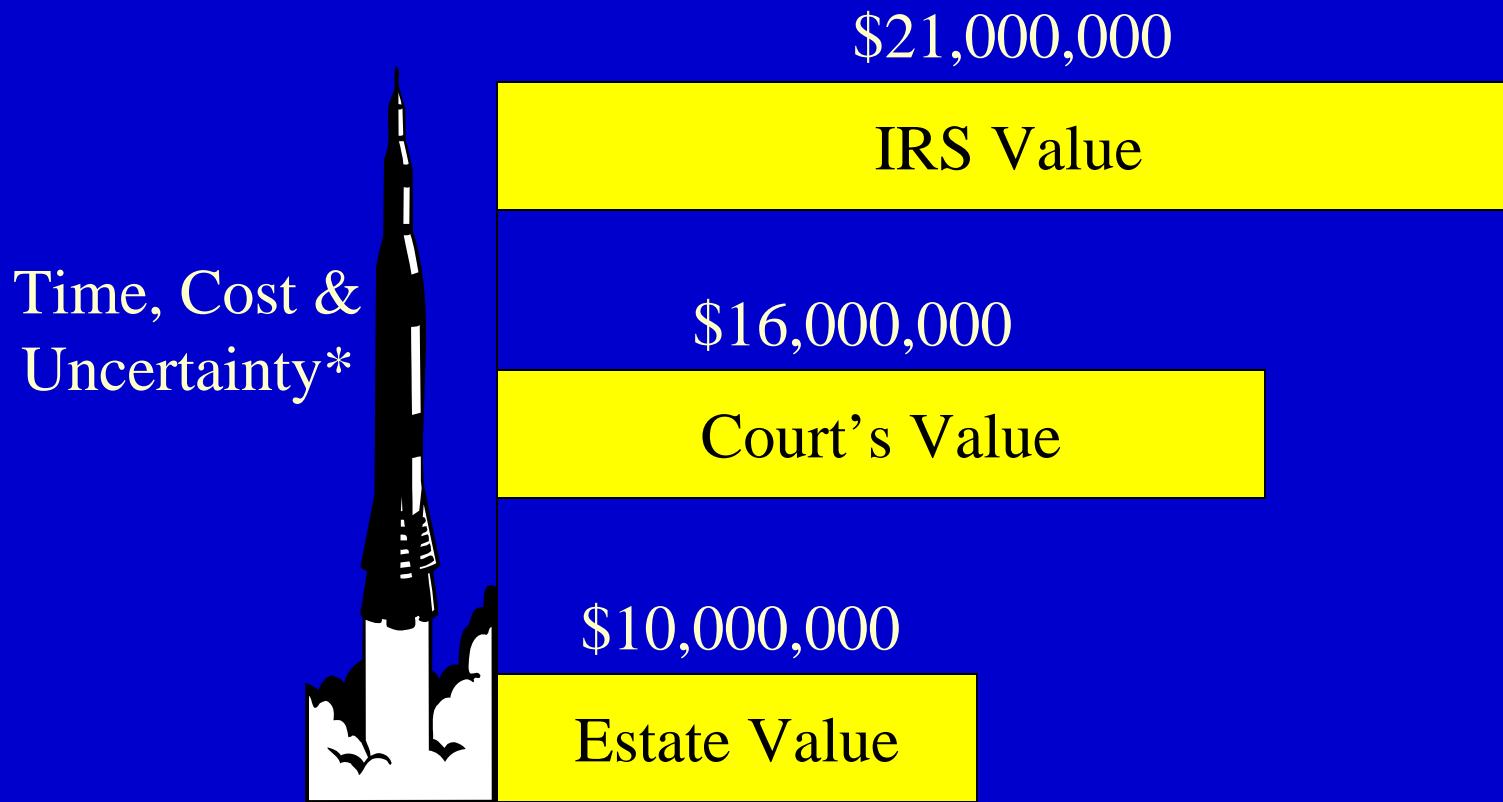
	2007-08	2009	2010
<i>Exemption:</i>	2,000,000	3,500,000	
<i>Tax Rate:</i>	45%	45%	0
20,000,000	8,100,000	7,425,000	0
10,000,000	3,600,000	2,925,000	0
5,000,000	1,350,000	675,000	0
3,500,000	675,000	0	0
2,000,000	0	0	0
1,500,000	0	0	0
1,000,000	0	0	0

VALUE

Average p/e multiple for S&P company: 24.9 (As of 12/04)

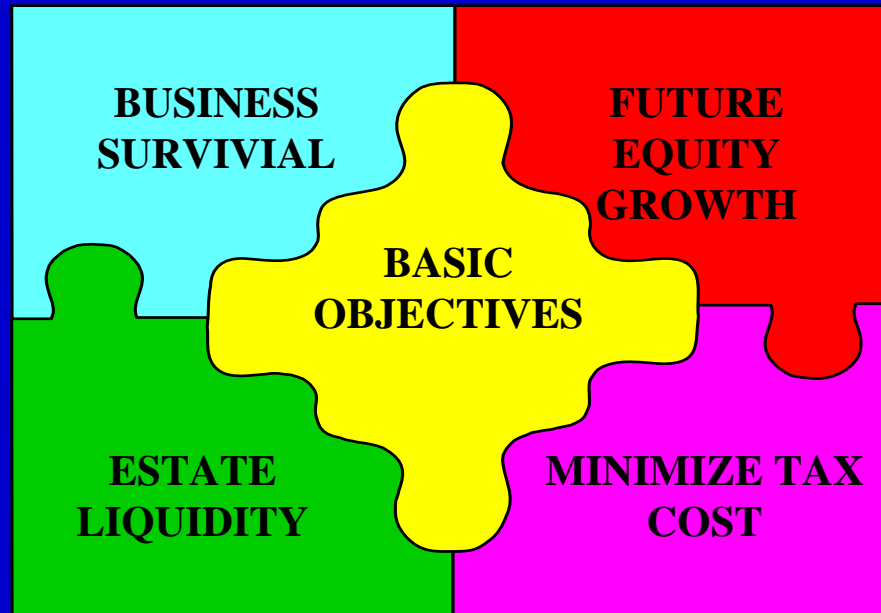
S&P Ten year p/e range: 17 to 46 (1994 to 2004)

Survey of Court Valuation Cases

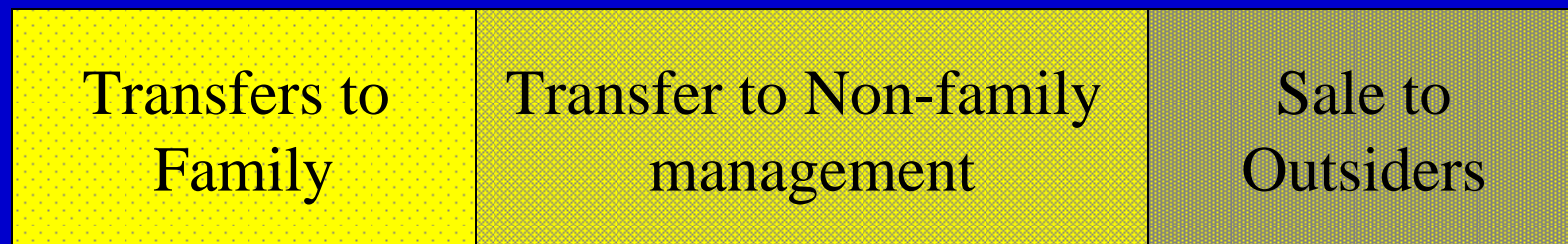


*TIME AVERAGES 5 YEARS, 10 MONTHS FROM DATE OF DEATH TO COURT DECISION

The basic objectives of succession planning...

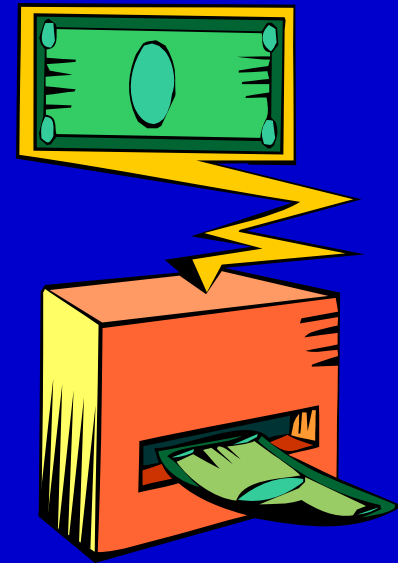


Succession Decision Making Techniques...



Transfers to Family

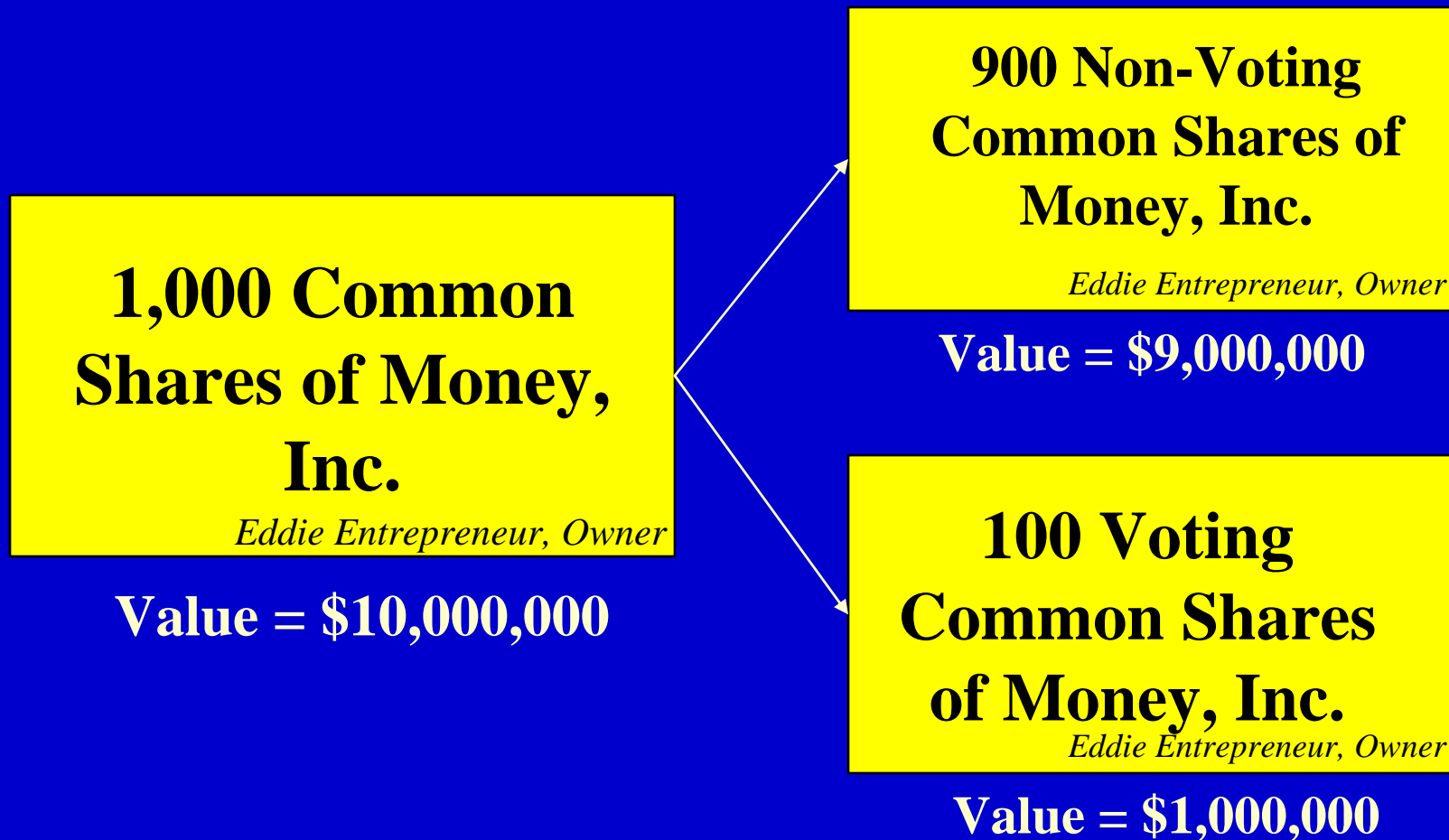
- Voting/Non-Voting
Stock Recapitalization
- Gift/Estate Plan
- Buy-Sell Agreement
- “Growth” Subsidiary
- Sidewise Sale
- Sales – Installment or Lump Sum



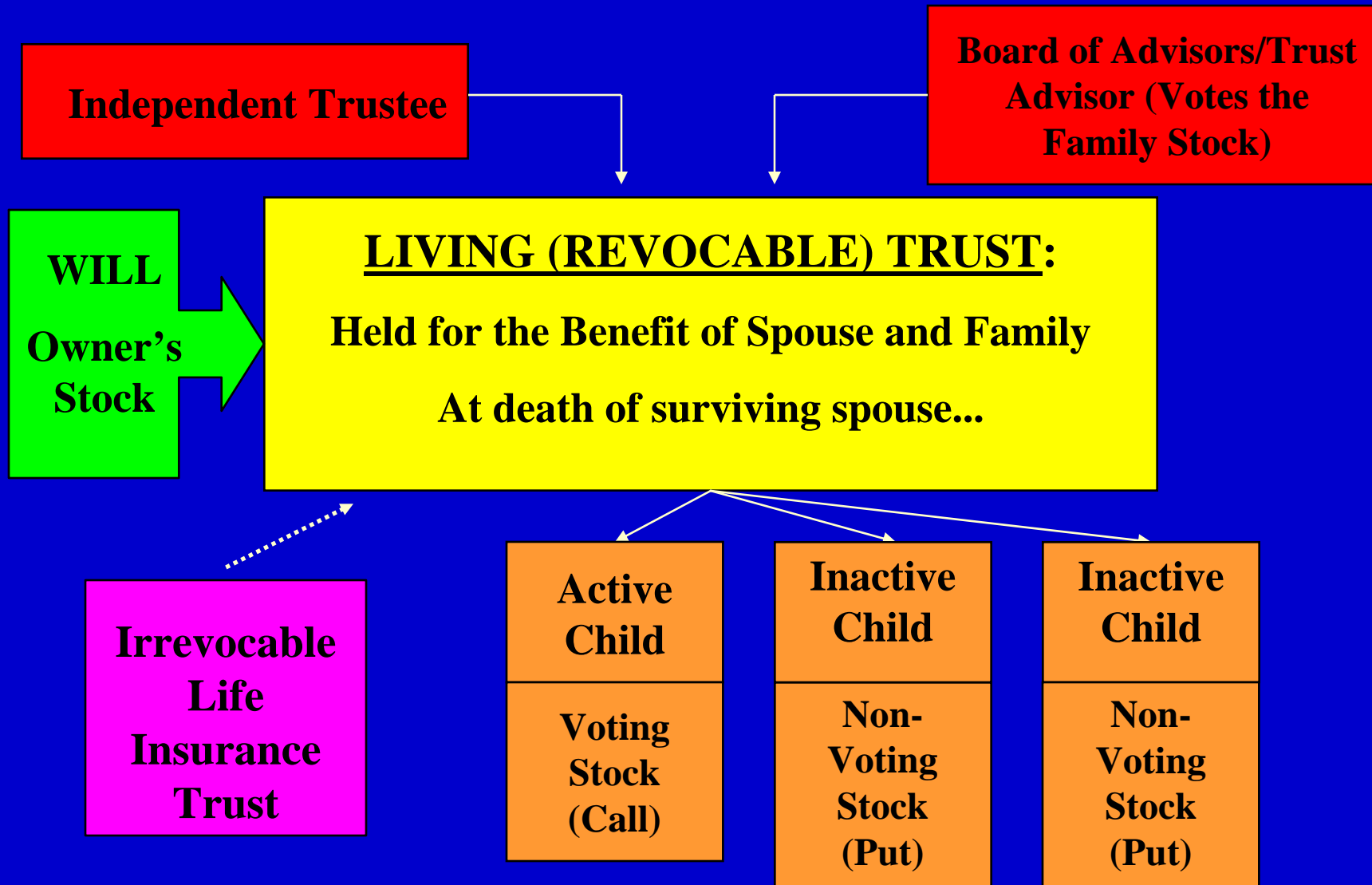
Set Family Goals and Economic Objectives



Common Stock Recapitalization



Gift Estate Plan



Gift Estate Plan

ADDITIONAL DOCUMENTS

1. Power of Attorney for Financial Matters
2. Health Care Power of Attorney
3. Living Will

Why Make Gifts Today?

A. *GIFT AND ESTATE TAX RATES*

SAME AND CUMULATIVE

B. *PAYING GIFT TAX REPRESENTS*

PREPAYMENT OF ESTATE TAX

C. *WHY CONSIDER?*

- Certain gifts tax-free
 - **\$12,000 annual exclusion**
 - **\$1,000,000 lifetime exemption**
- Shift Control
- Shift future appreciation
- Ease liquidity demands at death
- Personal reasons
- Shift future income tax



Set Family Goals and Economic Objectives



Buy-Sell Agreement (Mandatory Sale at Death)

- Corporate Redemption
 - Business Insurance
- Shareholder Purchase
 - Cross Purchase Insurance
(Each shareholder insures the other's life)
- Lump Sum or Installment Buy-Out



Buy-Sell Agreement (Mandatory Sale at Death)

- Other Key Provisions
 - Right of First Refusal
 - Options to Buy/Sell in event of Disability or Retirement
 - Valuation Formula
 - GAAP Accounting Issue



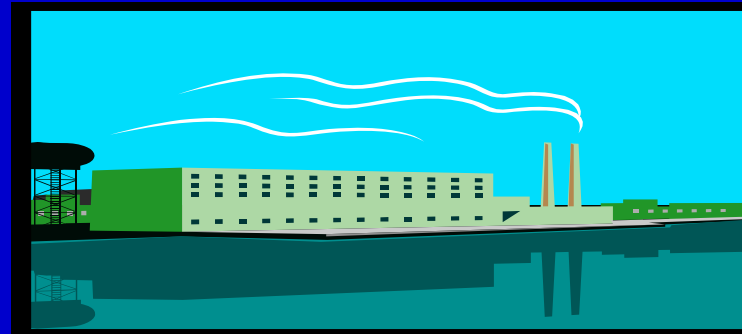
The “Growth” Subsidiary (LLC)



Children
and/or “in-laws”
30%

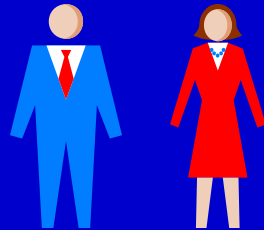


Mom and
Pop
70%

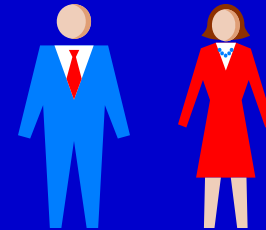


Existing Company

The “Growth” Subsidiary (LLC)

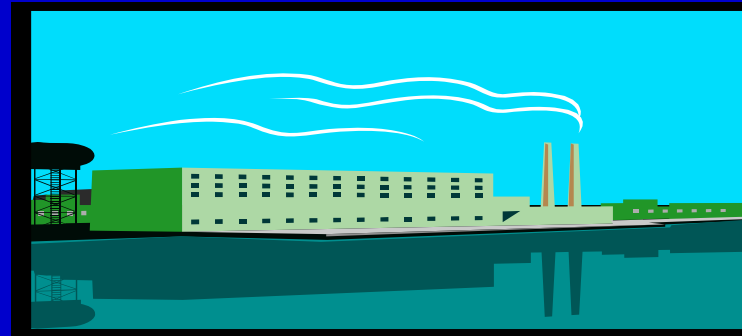


Children
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30%



Mom and
Pop
70%

100% COMMON
STOCK FOR
\$100,000

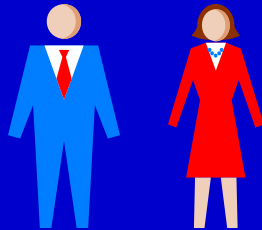


Existing Company

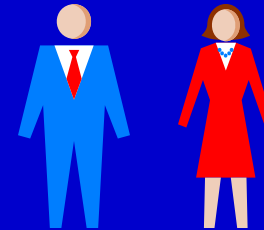


“Growth” Subsidiary
Or LLC

The “Growth” Subsidiary (LLC)

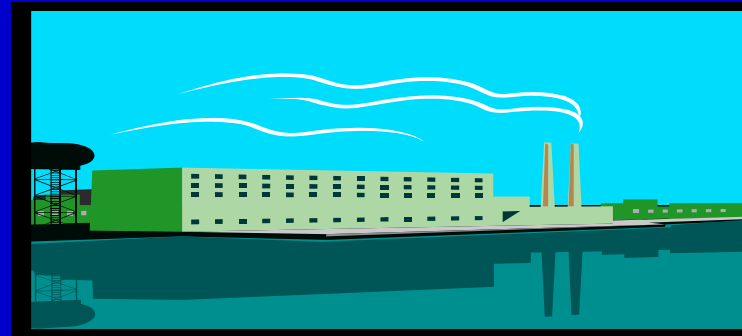


Children
and/or “in-laws”
30%



Mom and
Pop
70%

100% COMMON
STOCK FOR
\$100,000



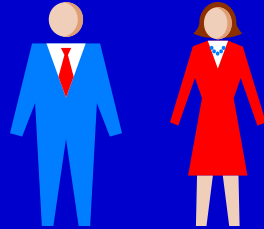
Existing Company

\$1,000,000
PREFERRED
STOCK

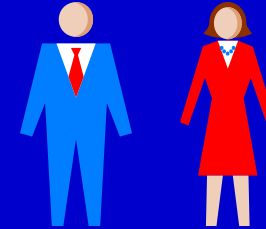


“Growth” Subsidiary
/LLC

The “Growth” Subsidiary (LLC)

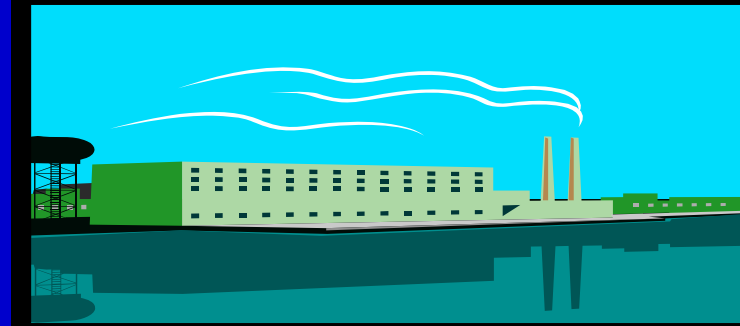


Children
and/or “in-laws”
30%

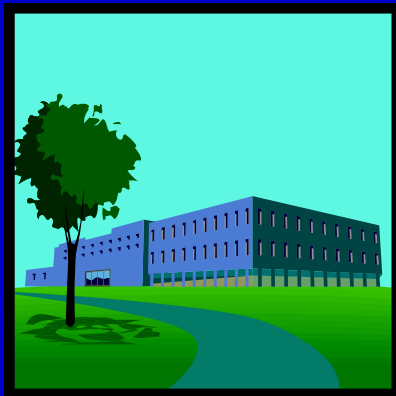


Mom and
Pop
70%

100% COMMON
STOCK FOR
\$100,000



Existing Company

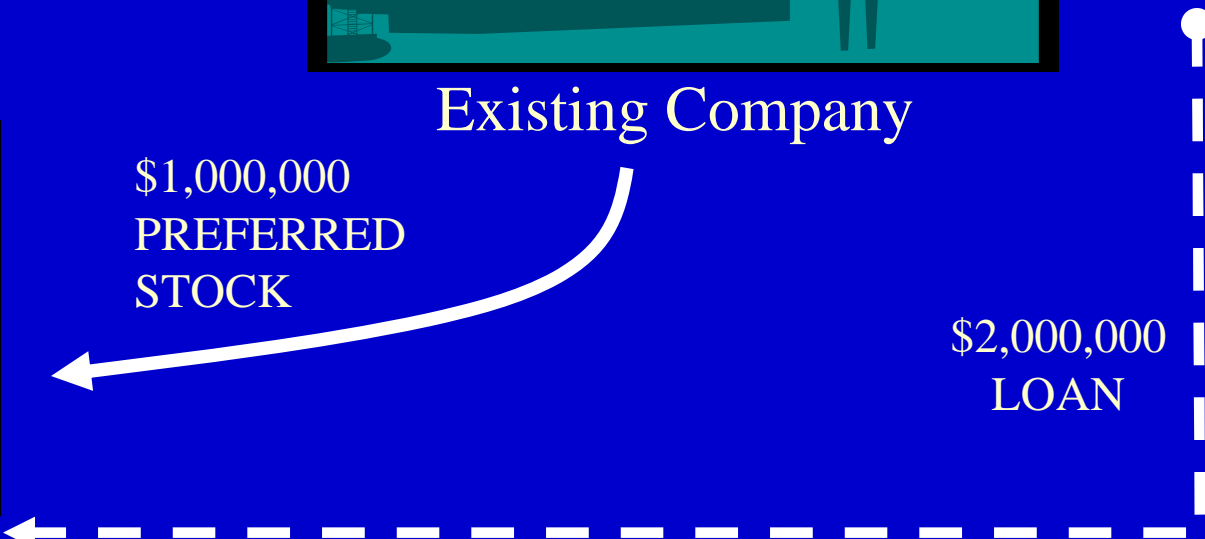


“Growth” Subsidiary
/LLC

\$1,000,000
PREFERRED
STOCK



\$2,000,000
LOAN



Sidewise Sale

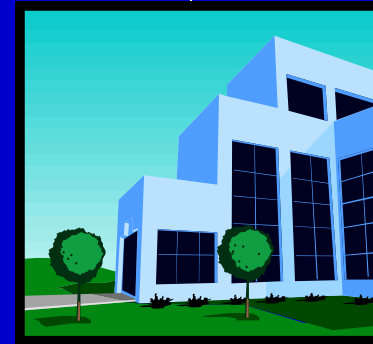
FOUNDER AND
INACTIVES



OLD COMPANY

Convert to Family Leasing
and Investment Company

ACTIVES
(SUCCESSOR GENERATION)



NEW COMPANY

Successor Operating
Company

Sidewise Sale

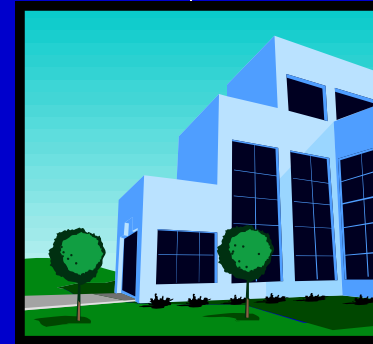
FOUNDER AND
INACTIVES



OLD COMPANY

Convert to Family Leasing
and Investment Company

ACTIVES
(SUCCESSOR GENERATION)



NEW COMPANY

Successor Operating
Company

(1) Sale of Operating Assets

Sidewise Sale

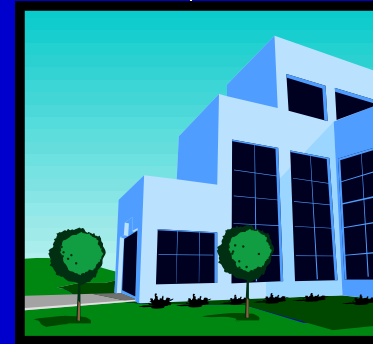
FOUNDER AND
INACTIVES



OLD COMPANY

Convert to Family Leasing
and Investment Company

ACTIVES
(SUCCESSOR GENERATION)



NEW COMPANY

Successor Operating
Company

(1) Sale of Operating Assets

(2) Lease Fixed Assets

Sidewise Sale

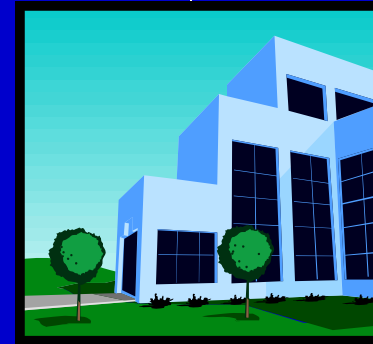
FOUNDER AND
INACTIVES



OLD COMPANY

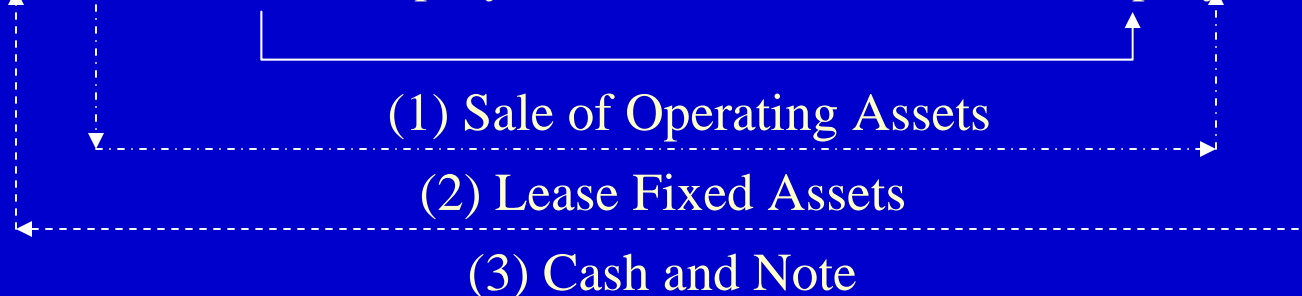
Convert to Family Leasing
and Investment Company

ACTIVES
(SUCCESSOR GENERATION)

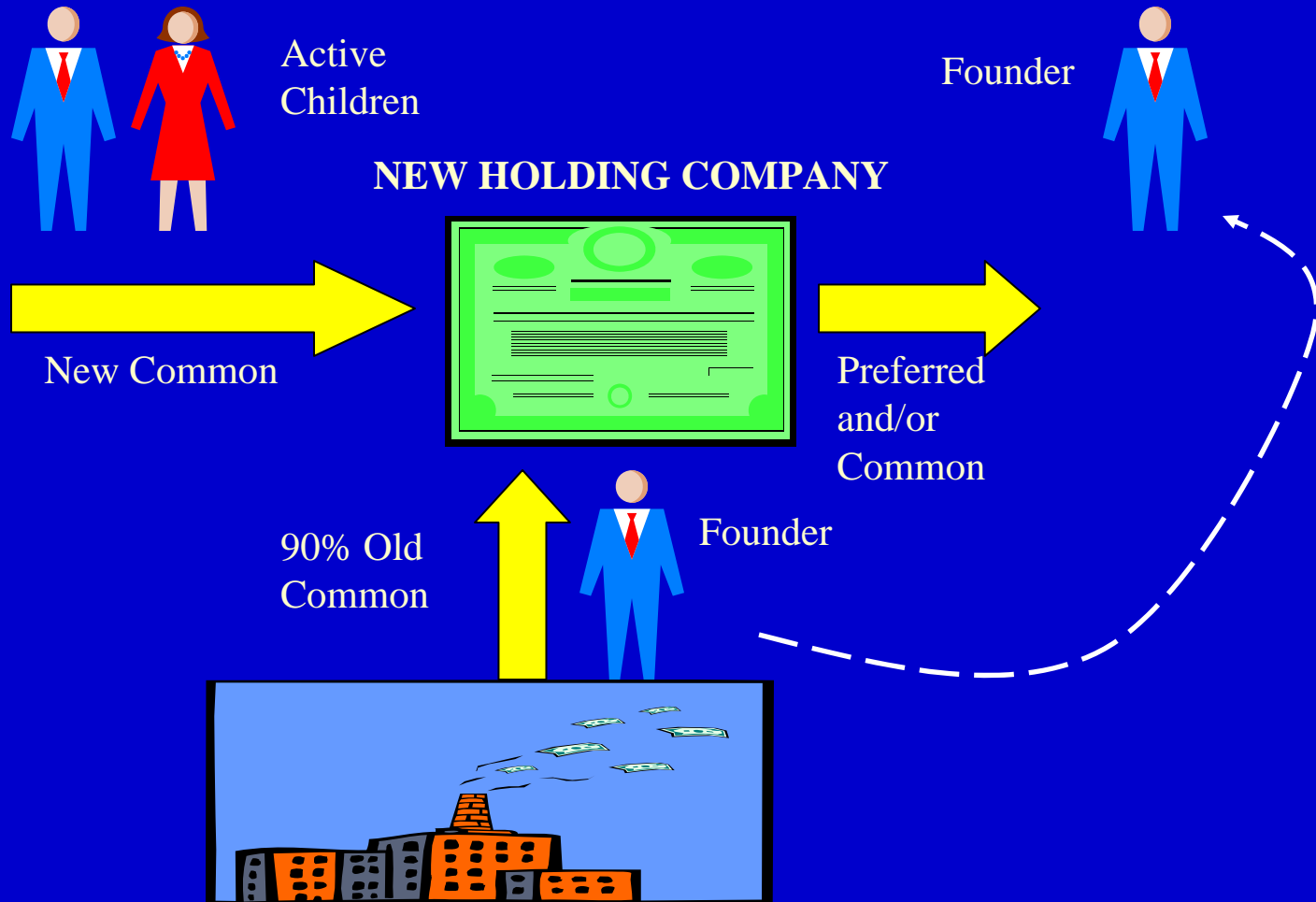


NEW COMPANY

Successor Operating
Company



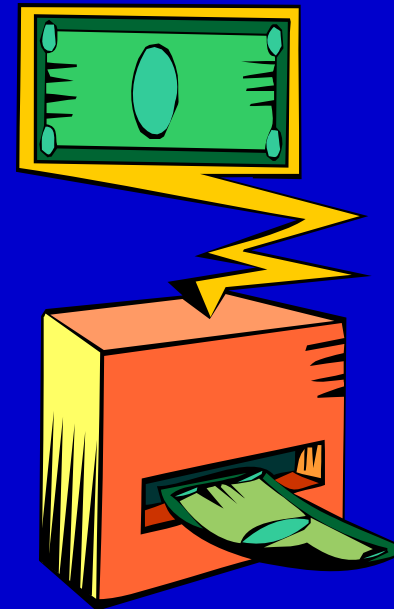
Holding Company (Subsidiary Conversion)



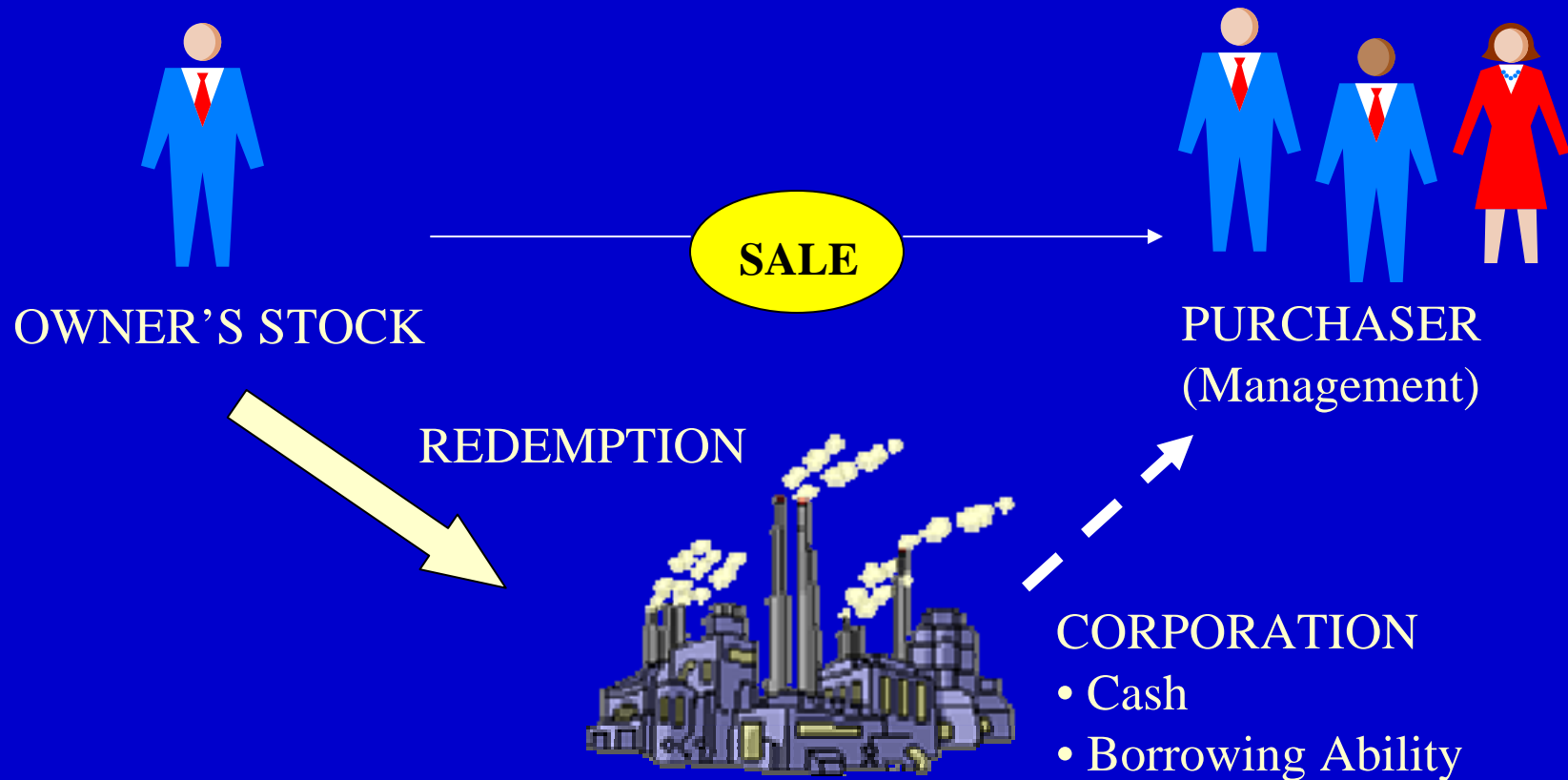
OPERATING COMPANY

Transfer to Non-Family Management

- Bootstrap Sale (Stock)
- Installment Sale (Assets)



BOOTSTRAP SALE



- LUMP SUM
- INSTALLMENT SALE

Caveat: Debt or Equity

Sale of Business

COMPARISON: Sale of Stock vs. Sale of Assets

Owner:

<u>SALE OF STOCK</u>	\$5,000,000
Stock basis	- <u>100,000</u>
Taxable gain	\$4,900,000

CORPORATION

<u>SALE OF ASSETS</u>	\$5,000,000
Asset basis	- <u>4,500,000</u>
Taxable gain	\$ 500,000

STEPPED-UP BASIS CONCEPT

A) PRE-DEATH INCOME TAX COST

Owner's appreciated assets –
taxes on pre-death sale:

Fair market value	\$5,000,000
Owner's basis (cost)	<u>100,000</u>
Approximate Taxable Gain	\$4,900,000

B) POST-DEATH SALE

Fair market value	\$5,000,000
Stepped-up basis	<u>-5,000,000</u>
Taxable Gain	-0-

LIQUIDITY FOR DEATH COSTS

A. OTHER ASSETS

- Liquid assets and borrowing
- Insurance advantage



B. SECTION 303 REDEMPTION PLAN

C. BORROW FROM U.S. – SECTION 6166

~~D. SMALL BUSINESS EXCLUSION – SECTION 2057~~ – **REPEALED!!**

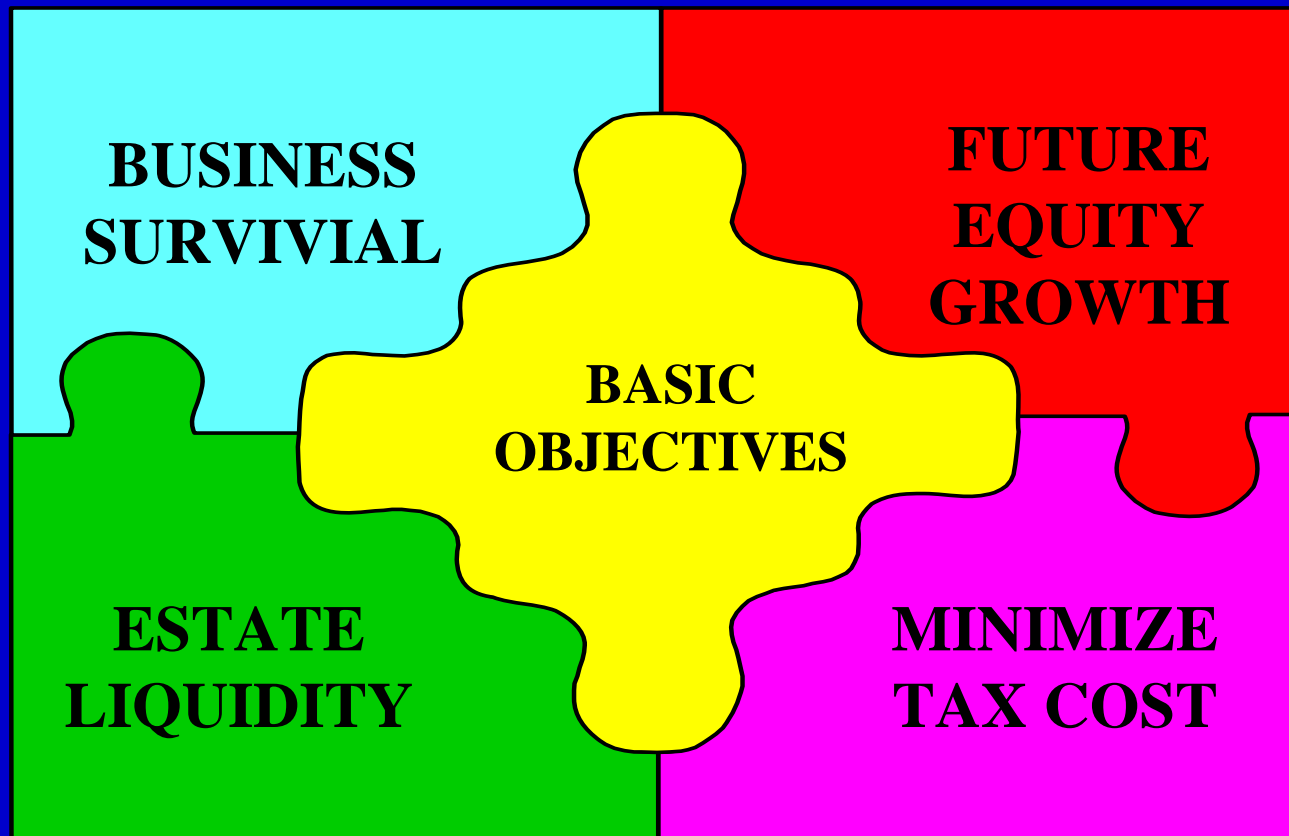
E. BUILD EARNINGS OUTSIDE COMPANY

F. LEVERAGE

SUCESSION PLANNING CASE STUDIES



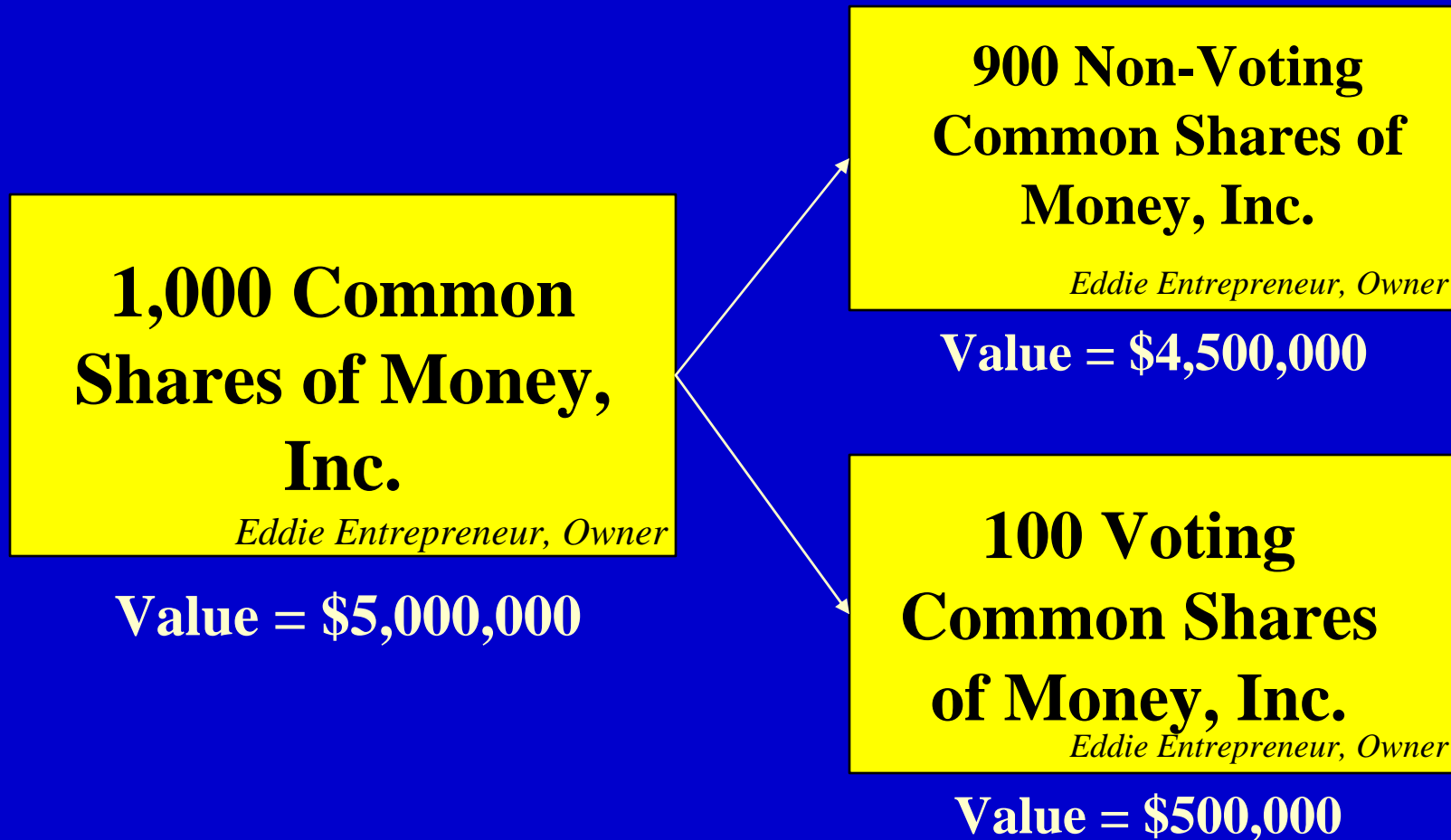
The basic objectives of succession planning...



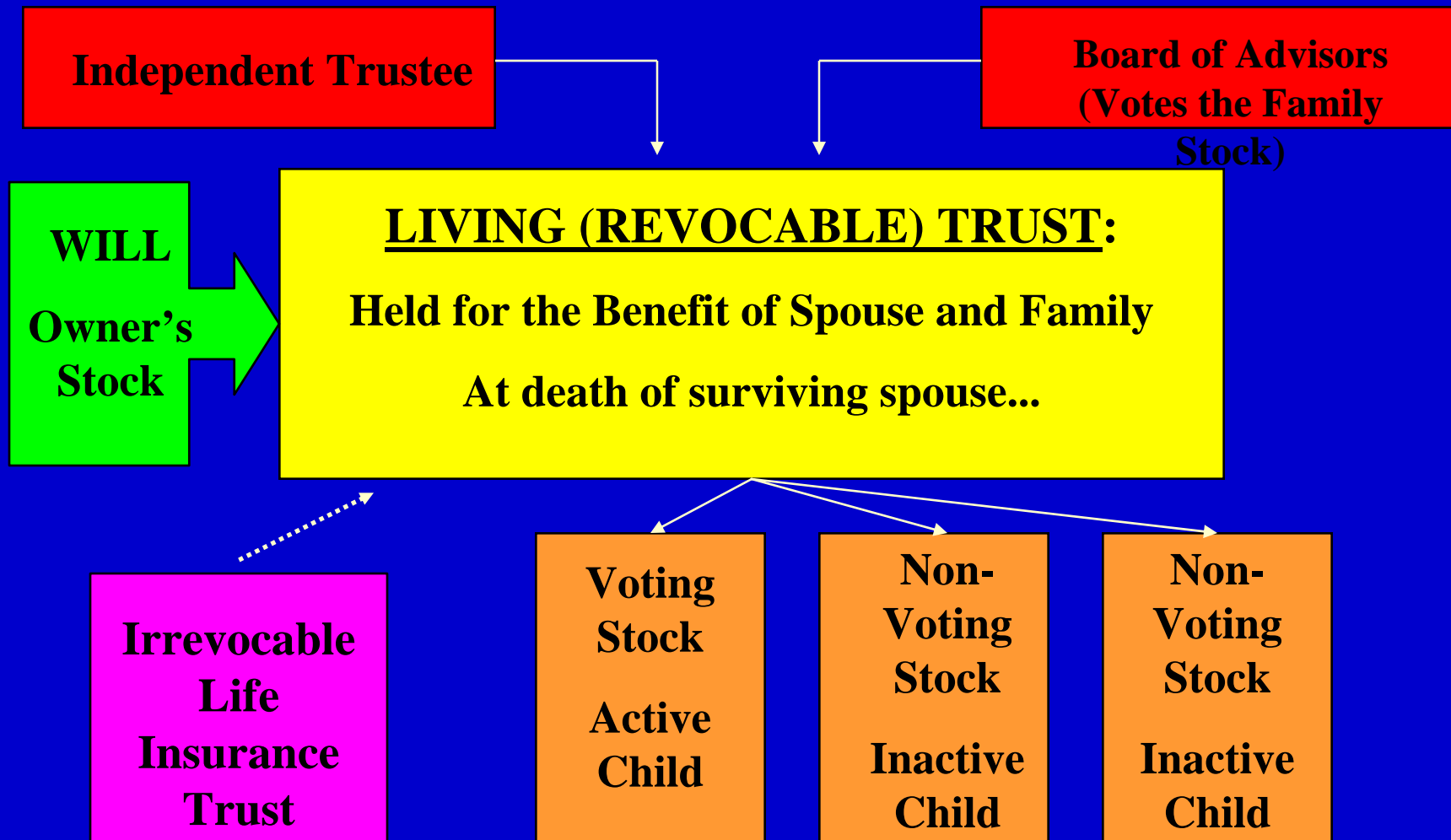
Case Study #1: CD Manufacturing, Inc.

- Sales of \$20,000,000; Value \$5,000,000
- Lots of Assets
- No Long Term Debt, but uses A/R Facility
- 100% Owner, Age 60
- 4 Children, 2 Inside, 2 Outside
- 401(k) = \$500,000
- Personal Assets = \$3,000,000
- \$3,000,000 Life Insurance

Common Stock Recapitalization



Gift Estate Plan



Case Study #1 Solution

- Common stock recapitalization
 - 90% nonvoting / 10% voting
- Gift estate plan
 - Voting stock divided among active children
 - Nonvoting stock divided among inactive children
 - Stock “put” at predetermined formula price or appraisal
 - Life insurance funding
 - Annual gifting program and unified credit
- Deferred compensation for senior family members

Case Study #2: Money, Inc.

- **Sales \$10,000,000; value \$2,000,000**
- **Inventory, few other assets**
- **Bank debt = \$1,000,000 credit line; \$500,000 term loan**
- **Ownership is 50/50 between one brother (age 55) and one sister (age 65)**
- **B has 3 children, one is 25 and works in operations; S has 2 children, one is 35 and is the top sales person**
- **401(k): \$400,000 each**
- **Personal assets: B = \$500,000; S = \$1,000,000**
- **Life insurance: B = \$1,000,000; S = \$50,000 (uninsurable)**

Mandatory Sale at Death

- Corporate Redemption
 - Business Insurance
- Shareholder Purchase
 - Cross Purchase Insurance
(Each shareholder insures the other's life)
- Lump Sum or Installment Buy-Out



Case Study #2 Solution

- Buy-sell agreement
 - Death, disability, termination of employment
 - Life insurance funding to the extent available to B through an irrevocable trust (None for S)
 - % of cash flow for balance of payments
- Deferred compensation upon retirement
- Estate Plan: Living trust to utilize unified credits
- Powers of Attorney for financial and medical matters
- Establish advisory board to develop skills of next generation

Questions?

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