

# Where the Business Plan, Strategic Plan and Exit Plan Meet

By

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# When You Own a Business You Have 3 Options:

1. Die with it – *your* problem
2. Pass it on – *our* problem
5. Sell it – *their* problem

# Your Business is:

- Your lifestyle
- Your family's lifestyle
- Your retirement/security
- Your satisfaction/accomplishment
- Or maybe you just cannot work for anyone

# The Practical Aspects of Planning: The 3 Whats

1. What does the senior generation *require* from the business going forward?
2. What can the business *afford*?
3. What is the business *worth* or what is *fair*?

# Nuts & Bolts of Assembling a Succession Plan: The 4 Ds

- **Death.** What happens when owner dies?
- **Disability.** What if owner becomes permanently disabled?
- **Departure.** What happens when owner leaves?
- **Discord.** What if owners can't resolve disagreements?

# Nuts & Bolts of Assembling a Succession Plan

The ultimate exit strategy for owners who can not resolve their differences needs to be incorporated into an agreement to prevent the entity's demise

- **The Put.** Seller tenders his/her shares with the entity or other owners required to buy
- **The Call.** Buyer forces other owner to sell

# Nuts & Bolts of Assembling a Succession Plan

- Push-pull mechanisms
- Deterrent to inappropriate puts-calls
- One of the owners to set price and terms (the more detailed the more effective)
- Other owner selects whether they will buy or sell at the stated price under the offered terms

# Nuts & Bolts of Assembling a Succession Plan

## Implementation

- Must determine the value of the enterprise
- Important in formulating a plan (the 3 Whats)

## Methods

- Formula
- Appraisal
- Stipulation

# Family Business Succession Planning

- May require parents to make uncomfortable choices
- Parents feel compelled to select their successors
- To decide the responsibilities each will have in the enterprise
- Plan hits the ultimate bottleneck; parents can't or won't address these critical issues

# Family Business Succession Planning

## Bottom-Up Planning

- “Bottom-up Planning” is system in reverse
- Successors/children determine issues among themselves
- Often have help of a facilitator

# Family Business Succession Planning

## Bottom Up Planning

### Elements

- Titles
- Compensation
- Authority
- Resolution
- Ownership/Percentages
- Non-Employee Benefits
- Fairness
- Plan Implementation

# Family Business Succession Planning

## Bottom Up Planning

### Advantages

- Builds Consensus
- Facilitates Implementation
- Encourages successors to take ownership of process
- Relieves parents from making painful decisions
- Parents may witness cooperation
- Allows senior generation to address common interests **and** concerns

# Management Succession: Not Just Ownership

**It may be more important than Ownership  
Succession**

- What are the 3 key functions you perform?
- If deceased or disabled, who would perform those functions?
- Would the failure to perform those functions be detrimental?

# Management Succession: Not Just Ownership

If permanently unable to perform your duties,  
should the business be:

- Sold
  - Hire a replacement as soon as possible
  - Assign the duties to existing management

# Management Succession: Not Just Ownership

- If the business should be sold:
  - Who should run it until buyer is found?
  - Would key customers leave?
  - Would key employees go to work for a competitor or start competing enterprise?

# Management Succession: Not Just Ownership

If a replacement should be hired:

- What qualities are needed to be a success?
- What is the most important discipline?

For example:

- financial
- sales and marketing
- administrative
- entrepreneur
- industry experience

# Management Succession: Not Just Ownership

If existing management:

- Should one individual be given the type of control you enjoy?
- Should your control be vested in a committee or your spouse?
- Should your family be allowed to make the key decisions or should a committee be consulted before final decisions are made?

# Techniques Used in Succession Planning

- Gifts
- Installment Sale
- Buy-Sell Agreements
  - Close Corporation Agreement
  - Operating Agreement
  - Partnership Agreement

# Techniques used in Succession Planning

- Installment sale to intentionally income tax defective trust “IDIT”
- Self cancelling installment note “SCIN”
- Short term grantor annuity Trust “zeroed out GRAT”

# Techniques used in Succession Planning

- Long term GRAT
- Family limited partnership and limited liability company
- Private annuity

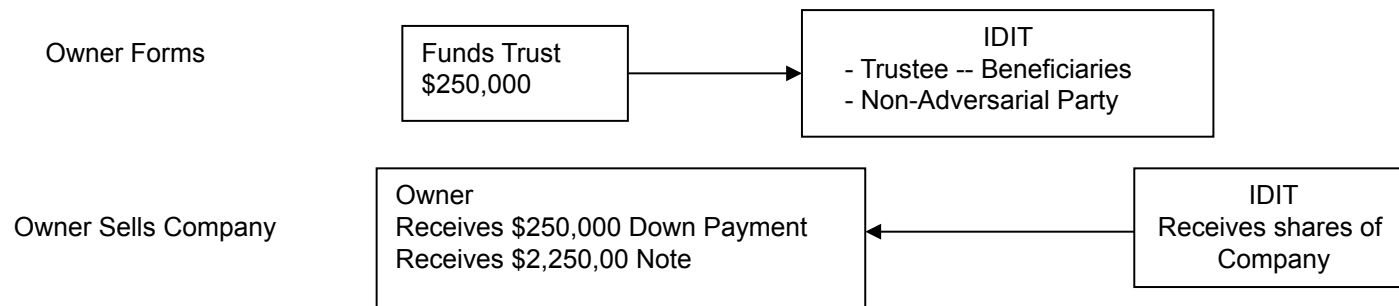
# Installment Sale to Intentionally Defective Income Trust (IDIT) Amortization Schedule

Purchase Price:	\$2,500,000
Down Payment:	\$250,000
Annual Interest Rate:	4.00%
Amount Financed:	\$2,250,000
Monthly Payment:	\$22,780

# Installment Sale to Intentionally Defective Income Trust (IDIT) (cont.) Amortization Schedule (cont.)

Year	Ending Principal Balance	Principal Paid	Interest Paid	Principal Paid to Date	Interest Paid to Date
2009	\$2,063,238.86	\$186,761.14	\$86,600.73	\$186,761.14	\$86,600.73
2010	\$1,868,868.78	\$194,370.08	\$78,991.79	\$381,131.22	\$165,592.52
2011	\$1,666,579.77	\$202,289.01	\$71,072.86	\$583,420.23	\$236,665.38
2012	\$1,456,049.19	\$210,530.58	\$62,831.29	\$793,950.81	\$299,496.67
2013	\$1,236,941.26	\$219,107.93	\$54,253.94	\$1,013,058.74	\$353,750.61
2014	\$1,008,906.55	\$228,034.71	\$45,327.16	\$1,241,093.45	\$399,077.77
2015	\$771,581.35	\$237,325.20	\$36,036.67	\$1,478,418.65	\$435,114.44
2016	\$524,587.15	\$246,994.20	\$26,367.67	\$1,725,412.85	\$461,482.11
2017	\$267,530.03	\$257,057.12	\$16,304.75	\$1,982,469.97	\$477,786.86
2018	\$0.00	\$267,530.03	\$5,831.84	\$2,250,000.00	\$483,618.70

# Installment Sale to Intentionally Defective Income Trust (IDIT) (cont.)



# Installment Sale to Intentionally Defective Income Trust (IDIT) (cont.)

