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Advanced Sales

Business Succession Planning

An Unexpected Exit Strategy For Business Owners

Just as many business owners may have not prepared for a planned exit strategy – even more may have not considered an unexpected exit and the answers to questions like these:

- What is the value of my business?
- How do I ensure my family receives the value of my business?
- Can my business continue after I'm gone?
- How do I transfer ownership if there is successor management willing and able to operate the business?
- Could tax-favored profits be extracted from the business for myself or my family?

We Can Help Answer Those Questions

Having a buy-sell agreement is often a key component of any business exit strategy, whether it was planned due to retirement or unexpected due to death or disability. Being prepared and knowing how to fund the agreement is critical. Funding can be accomplished several ways, such as saving with a sinking fund, borrowing from a third party or purchasing a life insurance policy on the owner. Life insurance death benefits can ensure the person or entity you have chosen to purchase your business has the immediate liquidity needed so your family can receive the full value for your business interests in a timely manner.

Good To Know

A valid buy-sell arrangement is predicated on a realistic valuation of the business. You should obtain a qualified appraisal and update it periodically. Many different methodologies are used and weighed, including book value, capitalization of earnings, straight capitalization, discounted future earnings, multiple of earnings and others.

Client Example*

Siblings, James and Susan, each own 50% of a C-Corporation worth $2 million. Each wishes for his or her family to receive the value of the business at death and for the survivor of the two of them to carry on the business.

Issue

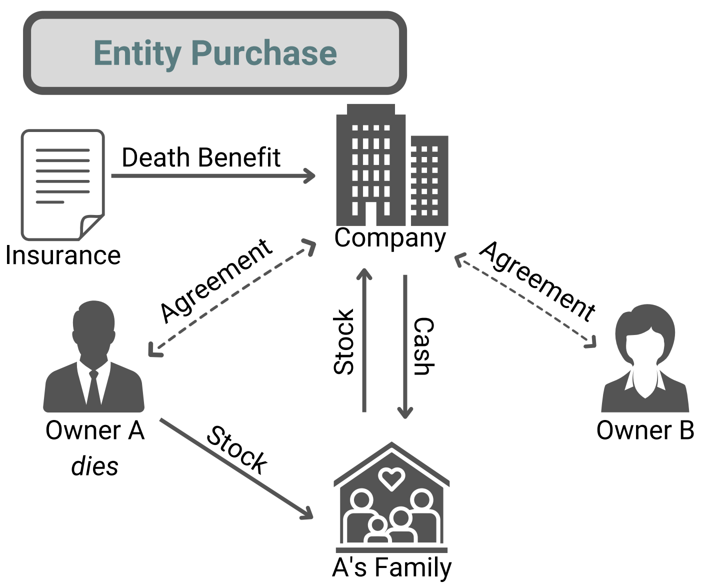
Neither shareholder wishes to involve his or her family in the business, but each wants the value to pass to the family. How can they ensure the surviving owner's family will receive the stock's value at death?

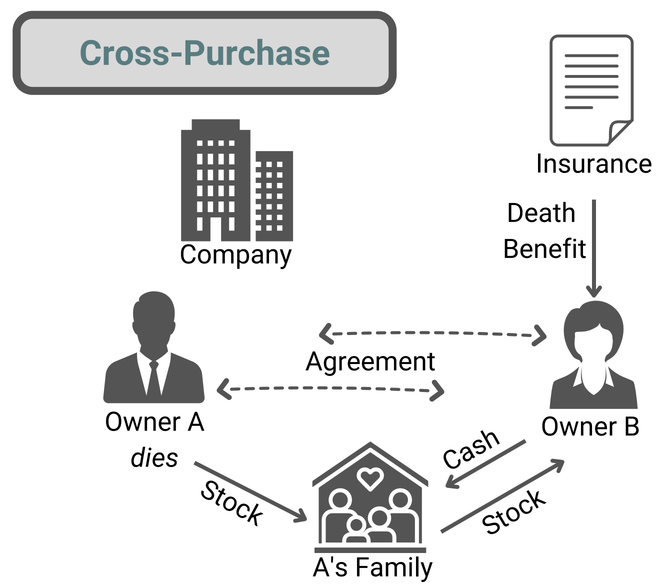
Solution

They enter into a cross-purchase buy-sell agreement. Each purchases a life insurance policy on the other. When one sibling dies, the other receives the death benefit and purchases stock from the deceased sibling's family for its fair market value. The surviving sibling now owns 100% of the company, and the deceased sibling's family has funds to replace their income.

Structure of Buy-Sell Agreements

There are two basic structures for a buy-sell agreement – the entity purchase and the cross-purchase.*1 Under an entity purchase, owners A and B (including heirs, successors and estates) enter binding agreements to sell their entire interests to the business at death.*2 The business agrees to purchase the ownership interest from the estate or family and funds that obligation with a life insurance contract on each owner. In the cross-purchase strategy, the owners execute an agreement between themselves and purchase and own insurance on each other. When one owner dies, the policy on his or her life pays a death benefit to the surviving owner so the survivor can purchase the ownership interest from the estate or family





*Client examples are offered to show how CBS Brokerage Connections can provide valuable assistance to clients in meeting their insurance needs. Results may vary. This is a hypothetical example and does not guarantee a similar result.

1 Company ownership of life insurance is subject to various tax rules and regulations. You should always consult your tax advisor prior to purchasing life insurance on behalf of yourself of your company. There are other structures, not mentioned here, that work as well, including the trusteed or escrowed buy-sell (for more than two owners where an entity purchase is not desired), the wait-and-see buy-sell (where successor management is not yet identified), and the one-way buy-sell (for single owners).

2 This sale event can also be triggered by other events, such as disability or retirement, which are beyond the scope of this material.