



Exit Planning Information & Education For America's Business Owners

The Exit Planning Review™ is an opt-in, bi-monthly newsletter published by Business Enterprise Institute, Inc.

This issue is provided to you by your JD Ford & Company Business Consultant professional, [Joseph Durnfor](#).

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Issue 84

Thinking About Transferring Your Company To Insiders

Part Two

In the previous issue this newsletter, we began a discussion about issues that owners should consider before they decide to embark on a transfer of their companies to insiders (co-owners or key employees). We suggested that you:

- **Learn About the Transfer to Insiders**
- **Test Your Assumptions**
- **Make No More Promises**
- **Consider Age of KEG Members**

(For a copy of the previous issue, please contact [Joseph Durnfor](#).)

Let's look at a few additional issues that you should consider.

Examine Your Risk Tolerance

Do you want to reduce your exposure to risk as you depart? Many owners decide that the KEG's privilege of purchasing—at a bargain price—the company's stock, should be balanced by increasing the risk that the KEG bears. You might transfer risk to your buyers by insisting that the KEG uses its money for down payment for initial stock purchase, or that it use personal collateral (such as their residences) as security for any installment note. You might transfer even more risk by insisting that your buyers obtain a bank loan for the entire initial purchase (possibly with the company's guarantee).

Examine Your Successor's Risk Tolerance

How much risk do you want your successor to assume? Are you willing to look exclusively to the future cash flow of the purchased stock for payment, rather than to your successors' other assets? Most owners want their successors (usually a KEG) to feel and bear some of the risk of a downturn in cash flow. They believe that KEG members only become true

owners when they bear an element of risk.

Understand the Need for Low Value

Do you understand the need for a low enterprise value in this type of transfer? If selling your company for the lowest enterprise value permitted by a qualified appraiser goes against your grain, you are not alone. It goes against the grain of nearly every business owner. Yet that is precisely the tool owners need to use in order to maximize the money they receive while simultaneously minimizing the risk of non-payment. If you are contemplating a transfer to an insider, the valuation number is not nearly as important as developing a projection or model of future cash flow after your departure and as the buyout begins. To be paid, you need to tap into future business cash flow. Placing the lowest defensible value on your company ultimately helps you to avoid excess taxation.

Consider Your Timeframe

If one of your objectives is to leave your company immediately, a transfer to employees is fraught with risk. If, however, you can wait four to eight years to be completely cashed out, a well-designed exit plan can make that happen. Using this longer timeframe not only reduces your risk of not being paid, it allows you time to continually evaluate each member of the KEG to determine which employees are suitable for ownership before you lose control.

Talk about these issues with your business advisors to determine whether a sale to Key Employees is the best exit path for you. If you have questions about any of the issues raised, the advisor who sent you this newsletter can provide more information.

*Subsequent issues of **The Exit Planning Review™** discuss all aspects of Exit Planning. The provider of this Newsletter (durnford@jdford.com) offer you unbiased information about what you most need to know - *How To Run Your Business So You Can Leave It In Style™* .*

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