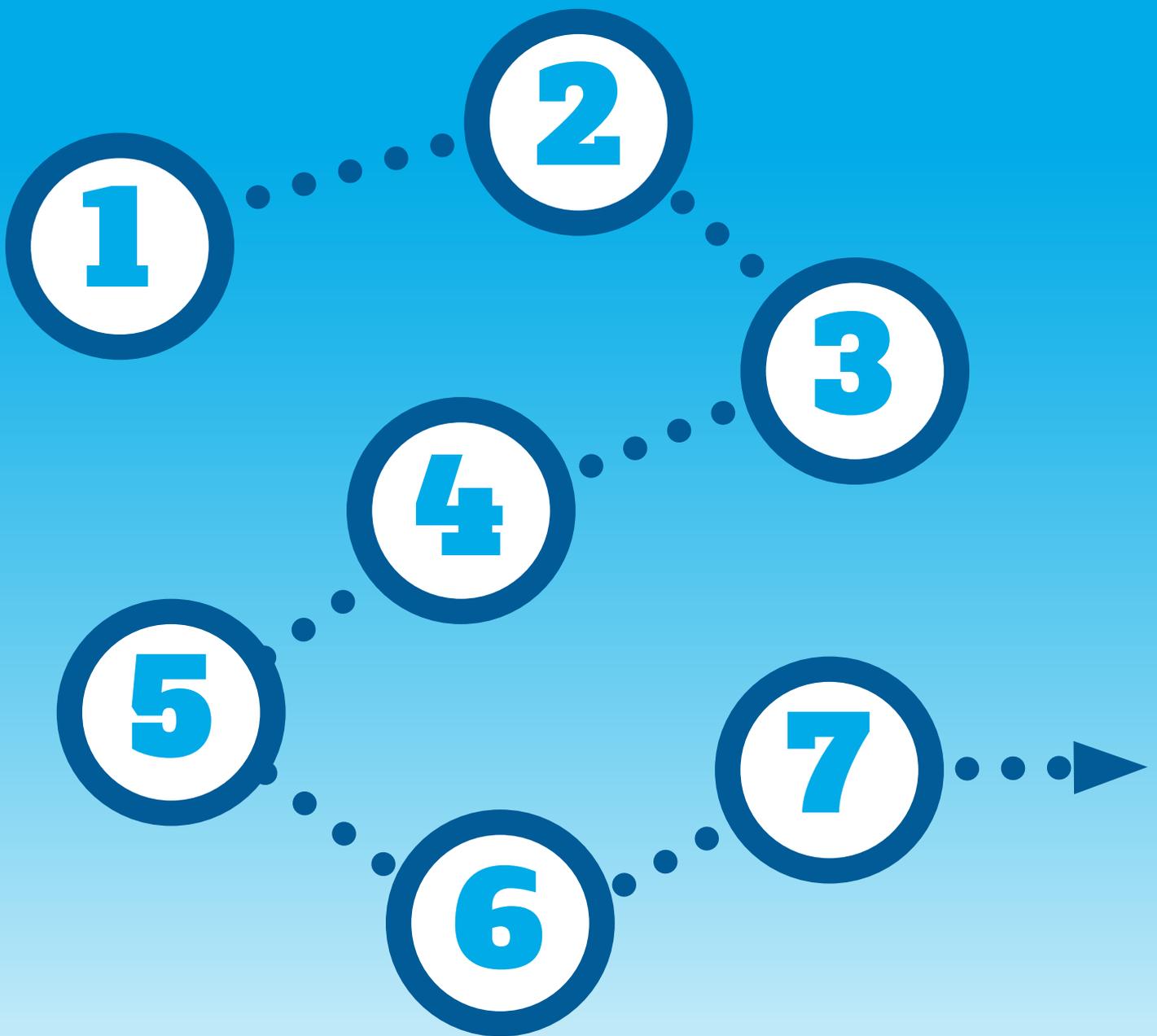


# 7 Steps To Leaving Your Business “In Style”

Creating, Maintaining & Implementing  
A Transition Or Exit Plan That Works



JAMES L. MOORE ATTORNEY AT LAW

# **Seven Steps To Leaving Your Business In Style**

## **Creating, Maintaining and Implementing a Transition or Exit Plan That Works for You and Your Business**

Dear Reader,

Thank you for making the choice to get this special report.

Every year, thousands of people like you deal with trying to create a business exit plan that actually works. You might even be surprised how many of you're the fellow business owners in your region have gone through exactly what you are dealing with right now.

The business exit or transition planning industry is at a crossroads. Your business or company probably isn't. At least not today. But the decisions you make today make all the difference in how you navigate the crossroads moments to come – and they're likely to be heavily and *negatively* affected by how so called “succession planners” advise you.

After years of thinking “we need to get information out to business owners, farmers, and ranchers” I finally concluded that the risks facing business owners are just too high to not get it out *now!* So you now hold it in your hands! This report is about *empowering* you and you to create, maintain and implement a successful exit or transition plan, a plan that will actually work. No matter how you're currently positioned my goal is to help you begin the process of putting together a plan that works for you and your business – and the time to start is now!

You may be a newer business owner with few issues but a lot of responsibility.

Perhaps you are a pre-retiree finally building the worth of your company to a point to where you can begin to transition out of your business or change the relationship you have with your business now that the kids have been educated.

Many readers pick up reports like these because they are beginning to think about retirement and recognizing that this business “exit planning thing” might now actually need to be considered a reality. Still others do to economic or family issues are faced with a healthcare crisis personally or in your family. You may have very specific concerns like transferring a business or a farm, handling complex assets like retirement plans, or leaving a charitable legacy. In every case, **NOW** is the time to get started or to update any planning you’ve done before.

You should know that there is a path for you.

I also have a piece of good news for you... By getting this report, you have taken the first of several steps you need to a successful outcome. You could have ignored this information and kept on sifting through all the random pieces of information available to you online. Instead, you are now have a comprehensive resource about exactly how to create an exit or transition plan that works with people who care.

Sally came in a while ago having been referred to us by her financial advisor. She was in the middle of a probate court mess now in its fourth year, involving the estate of her deceased husband and his business who had assured her that “everything was taken care of”. This was a second marriage for Sally and she had children, and a reasonably well sized estate of her own. Some of her husband’s children were involved in the business an some were not.

No one was prepared for what would happen to the business in light of the owner's sudden and unexpected death. While helping her quickly complete the probate estate we were also able to eliminate two very aggressive business creditors and predators.

At the same time, we also proactively helped Sally and the rest of the blended family create an *Empowered Estate Plan* that now fully protects herself, her kids and step kids, and the rest of her wealth from ever having to deal with what she has gone through. Bottom line, she now has peace of mind not just a piece of paper.

It's also important to say that there were three businesses involved in Sally's probate mess. Due to our unique training and process in the area of exit or transition planning for business owners we are also able to extricate, save, and salvage the businesses from "Darth Vader", (better known as the IRS) and the employee turmoil created by the premature death of a terrific entrepreneur, husband and father, who had what we call a "no plan-plan".

Sally was pleased with the results and so were we. However, it wasted way to much time energy and money. Most of that could have been prevented by putting a plan in place.

That story is one of many that we have handled at James Moore Law.

Once you have look through this report, please feel free to call us to discuss your situation. My hope is that you will look to us for help when you need it. We are excited to serve you!

Sincerely,

James L. Moore

P.S. I am just a phone call away at 616–813-7099. Make sure you mentioned that you downloaded this report and we'll answer whatever questions you may have!

## **The Seven Steps To Leaving Your Business In Style**

### **Introduction**

You've worked hard to build a business. You've worked hard to build a business. If you're like most people, you want to make sure that when it's time to leave your business, you want to do so with the maximum amount of value you can. I found that there are seven specific steps that you need to take to improve your chances of being able to leave your business in style.

Let's talk about our business owner John Sample. Whether he's aware of it or not John has a problem which he probably inherently understands, but is not yet been specifically stated or addressed. That is how is he going to leave his business and still maintain the lifestyle he has put together for himself. The good news for John is that he is still young enough to make and implement plans that will get them to his goals.

### **Step One, What do you need?**

Very first step John needs to take is to find out what he needs to become financially independent. That is what we call our life's tile inventory. The way John will figure out his lifestyle needs is to sit down with his checkbook and figure out specifically what his present lifestyle costs are every year.

The steps that John needs to take are as follows:

- Go through his checkbook and categorize all expenditures over the last year.
- Look at all of the personal assets that he owns and wants to continue to own.
- Put down a rain of improvement in his day-to-day lifestyle.
- Analyze what the annual dollar value is of the benefits that are provided by the company that does not show up in John's personal checkbook.

Understand how much you'll have to pay in taxes and retirement to maintain the lifestyle he wants to have.

Once this information is assembled, we can then come up with a number where we can say that John is achieve financial independence. The issue John will have to come to grips with is that he is most likely not able to become financially independent while he still owns his company. In fact, depending on the way the businesses sold, John may never be completely financially independent.

## **Step Two, What's it worth?**

There are many drivers that will provide an ultimate value for your business. However, ultimately your business is worth what someone else is willing to pay for it. The trick is understanding what is fair value for both you and the potential new owner. No matter who is the successor owner of your business, they will need to be able to pay for it in order for the deal to be a good one.

I find that an overlooked area is the cost of taxes on both sides of the transaction. Most advisors will help you understand what you have to pay in taxes.

However, it's also important for you to understand what they will have to pay in taxes. The more you can help the buyer limit their taxes, the more the buyer can afford to pay you for your business.

For example, if you are selling your business for \$1 million under normal circumstances the buyer would have to make \$1,800,000 for them to give you the \$1 million for your business. This is because most of the time buyers will purchase a business with after-tax dollars. This means they first have to earn enough money to pay the taxes and then give you what you want for your business. Our buyer in the above example would have to pay the government \$800,000 in taxes before you get your \$1 million which brings the cost of the purchase to \$1,800,000.

If you are able to make the transaction mostly ordinary income, you will be able to save your buyer a huge amount of taxes. For example, if we could make the business sales price \$1 million by using deferred compensation, we would then have an after-tax cost for the buyer of \$650,000. This discounted price is because we don't have to earn taxes to pay this money in fact we get a tax deduction so our after-tax cost is about 35% of the cost of the usual way that businesses are purchased.

Understanding this principle can help you easily improve your after-tax take from the sale of your business by at least 25%. However for this to work, you must have the team that understands the techniques and importance of changing your business sale from a capital transaction to one that is primarily ordinary income.

### **Step Three, Increasing the value drivers of your business.**

When you think about leaving your business, it's important to understand what the value drivers are for your business. Many companies I work with, I find that businesses are taking actions that actually decrease the value of their business. They might not be using cash effectively, servicing clients at a loss, selling to the wrong customers are not taking advantage of the hidden value in their business.

In most business acquisitions, whether it's an outside or inside sale, the amount of money you will receive will be based on the ability of the business to produce cash for the new owners. So, for you to maximize the value of your business, you must make sure you are doing all of the necessary things to make the business have as high of a cash flow as possible. Please understand there is a difference between profit and cash flow. You will pay taxes on profits, but you don't always pay taxes on increased cash flow. This is especially true in a capital intensive business.

Most of the time, the next owner of your business will be a tax motivated owner. By this I mean they will also want to not concentrate on showing huge profits, but will want to have maximum cash in their pocket after taxes. It's up to you to structure your business so the new owner can use pre—tax dollars to purchase your business. You also want to make sure that the customers you service truly show a profit and you have measurement systems in place to know who your best customers are and why.

Some things you can do to improve the value of your business are:

- install a deferred compensation program for yourself so the new owners can purchase your business interests using pre—tax dollars.

- Quantify who your best customers are and then put marketing programs in place to attract more of these types of customers.
- Use leverage intelligently by borrowing money when you can get a positive return from using other people's cash.
- Know what the key measurements are in your company and then make sure everyone in the company pays attention to these key statistics.
- Pay attention to the three-legged stool of wealth creation. The three legs are increasing the after-tax value of your company, using qualified retirement plans to diversify your wealth, and own the real estate you operate your company from.
- Have programs in place for paying your people for doing the right things that make your business more valuable.

#### **Step Four: Who's going to buy it?**

As you are going through the first steps of deciding who the new owners will be, it's important to look at the first three steps to see if what you want to do with your business makes sense. For example, if you don't like the future of the business, you most likely will not want to do an inside sale. This is because in most instances inside sales require that you hold paper which will then require your staying involved in the business it might not have a great future.

If you believe that the business is basically a good one and you would like to see it continue not only for your benefit, but for the benefit of your family or present employees, and an inside sale might just be the way to go.

I have found there are only four ways to leave your business:

- a sale to an insider.
- A sale to your managers.

- A sale to family members.
- Liquidation.

Although there are similarities, each of these options will have different strategies that are important in helping you achieve maximum value for your business. Also, if you are forced to liquidate, then you will have left all of the goodwill in your business on the table. I believe that for you to maximize the ongoing value of the business, only the first three options are truly available for you when it comes time to leave your business.

As you go through the decision process on whom the successor owners of your business will be, it's important to know the new owners would want to own your business and what will get them excited about taking it over. In all instances, you must be able to communicate to the new owners, the value of your operation, both the obvious ones as well as the hidden values. This would come from recasting the numbers of your business realistically with what the new owners would receive in annual cash flow.

You will want to make sure that you remember to include a capital investment number in your cash flow projections. Every time you leave out a major expense since showing the cash flow of your business, you run the risk of losing credibility with your potential buyer. If you are selling to a third-party, you must plan that they will be sophisticated in evaluating your business. If making an inside sale, you don't want to oversell the potential cash flow because you will most likely have to play the role of the bank for the new owners and you will want to make sure you actually get paid.

Recasting your numbers showing what the new owners will get can be a great tool in helping you maximize the value of your business.

You will have to teach the new owners what they will be able to get out of the business on an after-tax basis. Done properly, this can dramatically improve the value of your business.

### **Step Five, Your Key People**

one of the key value drivers of your business is the quality of your management team. All of the successor owners should be very interested in your management team and how they will interact with each other after you're gone. In each of the scenarios was successor ownership your management team will either be a value driver or a value reducer of your business.

In all cases you will want to make sure that your management team stays for a period of time during the transition from your ownership to your successor owners. When the easiest ways of doing this is to institute a stay bonus program for your key managers. This is especially true for managers who will not be the new owners of the company.

Stay bonus is a compensation program that allows all your key people to participate economically in the transfer of the business. Usually stay bonuses will be deferred payment schedules that are triggered and tied to events such as the sale of the company. If the manager stay in performance certain levels then they would be eligible for cash payouts that would reward them for years of past service as well as getting the company through a transitional period.

Having a stay bonus program in place will certainly be a value driver if you decide to sell to a third-party and outside buyer does not want you, but they certainly want your key people. Having an economic incentive for key people to stay will allow you to get more money for your business, both from an inside and an outside buyer.

## **Step Six, Protecting your Assets**

In today's litigious society, it's probable that you will be sued if you own a business. Since your business is usually your largest asset, you will want to make sure that if you are sued, you can protect this asset from creditors and predators or any other people would like to win the legal lottery and ruin your quest for financial independence.

For this reason, I strongly suggest that you consider setting up multiple entities that will shield your asset should you be sued. If you are in a business where liability can "pierce your corporate veil" and get to you personally, then you'll want to speak with us about asset protection and the various ways you can use to protect yourself from those who would like to take from you what you worked your whole life for.

John also will want to make sure that he continues to have ultimate control over his business until he is paid for his business when it comes time for him to leave. Easiest way for this to be done is for John to have the company stock or the LLC membership interests put into a voting trust that he controls until the new owners have actually paid him what they promised.

John wants to sell his business to his children are managers, so this will be relatively easy to accomplish as one of the conditions of sale. However, if John sells his business to a third-party, then they will not allow normally a voting trust to be established. In that case John must have security interests that will easily allow him to access the cash that is owed him.

If John has structured his business for maximum tax efficiency at the time of sale, he can probably induce the buyer, whether an outsider or inside buyer to give him the maximum amount of cash up front that they can come up with.

Since we are going to just structure are sale for the buyer gets a tax deduction for all the cash they give us, there is an incentive for our buyers to pass up front so they get the tax deduction in the actual your purchase.

The primary goal in using asset protection is to make sure we first get the cash for our business and then protect the cash we receive from anyone who would like to take it away from us.

### **Step Seven, Investing the Proceeds**

The sale of the business is often the first time an entrepreneur actually has real money to invest. John was great at running his company, but he was not an experienced investor. Fortunately, John sought out good advice regarding his investments and learned early on that the goal of investing money from the sale of the business was not merely maximizing his return but rather making sure there was enough to live on.

That is why the first step John did when thinking about selling his business was figure out what he actually needed. This exercise helped John to find out that he lived below his means. If he manages money prudently, he would have plenty of money to live out his life. A competent, qualified, experienced investment advisor can continue to work with him to understand that prudent means enough and not necessarily getting a maximum return.

John realized that it was important for him to get a fair return on his investment, but it was more important that his capital base did not disappear in a severe market correction. I believe that as you start to accumulate significant amounts of investable assets you must concentrate on capital preservation more than capital growth.

In other words, there should be stop loss points predetermined for all the investment you make. In addition, if possible you want to use hedging strategies that allow you to have protection when markets decline but participate at more significant levels when markets are moving up.

When you sell your business, you have converted an engine that produces cash every year that you control to an investment that in many respects will be out of your control regarding its performance. So, it's important to have a strategy in place that will help you live your life regardless of whether the market goes up or down.

## **Conclusion**

Because John went through his exit planning in an orderly manner, he was able to put together strategies that helped him get what he wanted both while he was running his business as well as when he decided it was time to leave. He understood the importance of using the seven steps to create a written business owner roadmap as the basis for his planning.

More importantly, John put together an advisory team that specialized in helping him realize the maximum value from his business while limiting taxes not only for himself, but for the successor owners of the business. He learned early on, that controlling taxes on both sides of the transaction was probably the most important key in improving the value he could receive from this business when he decided it was time to leave.

So, I hope that you, like John, will put together a team that will help you make the proper plans so that when it comes time to leave your business you can do so "in style", which means of course maximum value minimum taxes, and no hassles or messes!

## Frequently Asked Questions

1. What is the best time to transition or leave my business?  
The answer to this question depends entirely on what you see the future to hold for yourself. You may want to die at your desk! Some owners say they want to be carried out on their shield! Or you may wish you were out of there next month. That is what the counseling session regarding an exit plan is all about answering this very important number one question of when, in terms of years, do you want to exit or transition your business?
2. What is the best way to leave my business? Again, this depends entirely on the analysis and review of the other steps in the exit planning process. As I said before there may be 50 ways to leave your lover but there's really only four things you can do with your company. The more in-depth discussion you have about these different techniques and strategies the more clearly you can decide which one is the best fit for you.

Is it really possible to control the taxes? Absolutely! Part of our goal here at James Moore law is that when we wake up in the morning we want the IRS to say, "Dang it, he's awake again." The reality is that the income taxes cannot be eliminated. But they can be deferred, deferred, deferred, and manipulated.

3. What are the risks of waiting? While no one has a crystal ball, all we have is today not tomorrow, and we all hope for the best. The dilemma I see is waiting too long so we run out of time in order to do the planning properly. Secondly, "life can happen". In other words, we don't know necessarily what can happen to us tomorrow physically, economically, or otherwise

4. That's why Chapter 12 of my book is called "live too long or die too soon, the longer you live the longer you live, but once your dead you're dead!" The bottom line is in my experience it's been the sooner you start and the more attention you pay to your exit plan just like you did in creating and running your business the better the experience will be when and if the time comes to leave your business.

### **Answers To The Questions You Didn't Know To Ask**

1. What expertise do you have in doing this process? I have extensive training through the Business Enterprise Institute and experience in working with private business owners to accomplish their objections and solutions regarding the transition or exit from their business.
2. No one can know everything. How do you arrive at the "right" outcome? We don't try to be an expert in everything. Through our own experience and through our other relationships we can help a business or find the right advisor for any of the strategic areas that we analyze. We often play the role of "general contractor" and will work with you to get the outcome you want through our network of experts from around the country.
3. What if I'm unhappy with the outcome? Our work is always guaranteed, you can stop the process any time you want. We will gladly refund any money we have received as long as you provide a reasonable explanation regarding any disappointment you have with our process.
4. How much time does this process take from beginning to end? We have completed the entire exit planning process in as little as four weeks based on an emergency situation. Our normal time for the beginning of our engagement to the end is usually about 8 to 10 weeks.

5. We find this timeframe works well for our clients and also helps us deliver a high quality experience. We also provide an agreed to written timeline for each step of the process.

Which leads me back to the Seven Step Exit Planning process., The key is comprehensive, customized, written instructions for your exit plan. These instructions should be the foundation of the written Business Owners Roadmap which should also include an implementation process. It's all about peace of mind and not just piece of paper!

*We believe you should develop your plan with counseling-oriented planning partners. We also believe that much of what passes for Exit Planning this country today is little more than word processing! We don't believe you should pay a licensed professional to do mere word processing. Their value is in their counsel and advice based on knowledge, wisdom and experience.*

*There are three basic principles I've learned during the years I have practiced: Things change, people are different, and everyone dies. That's why committing yourself and your business to creating a comprehensive written exit or transition plan will ensure that is ready when you are..*

*Call me at 616-813-7099 if you have additional questions about any or all of this. I would love to hear from you, and your question may also help us improve future versions of this guide!*

## ***How It Works***

**1. Seminars and workshops.** *We offer an ongoing series of these free events to further educate people about how all of this works.*

**2. Pathfinder Meeting.** We meet with you one-on-one for a complimentary one hour meeting to answer any and all of your personal questions about the law, our process, our fees and our expectations. As Mom always said “It’s a two way street so look both ways”. Are we the right firm, are you the right client, is this the right time?

**3. Discussion Draft.** This is a 2 to 3 hour “closed door” private counseling meeting for you and your team to lead you through the first steps of the Seven Step Exit Planning process and begin to narrow down and clarify your goals and choices.

**4. Working Draft Meeting.** This is a 2 hour meeting to revisit your design template, review your actual documents, and sign them.

**5. Final Draft.** We work together with you, your financial advisor, and your CPA as a “team” to make sure your plan is properly implemented.

**6. Maintenance and Review Program.** We provide a way to keep in touch with you via our newsletter, an annual “Happy Anniversary” letter (as in, you are a year older, and so is your plan) and offer an opportunity for you to come in for a review if your family, health, or financial circumstances have changed significantly.

Want to meet with us to discuss your situation and how an Empowered estate plan could help you actually create a plan that works? Call me at 616–813–7099 to arrange a free consultation.

### **The End Result**

Below you will find testimonials and a couple of stories of people who have gone through the process you just learned about. As you will discover, it doesn't have to be difficult and help is available to you.

“We went to Jamie on a friend’s recommendation when we needed to put together a living trust to protect our resources in the event of either one of our deaths which would be untimely no matter when they happen. He walked us through the entire process without a hiccup in it and even helped me put together a partnership buy-sell agreement for my business. During that process he consistently worked for my best interest even when he had to go at odds with my accountant and other planners. Further, I have recommended him to others several times since and all have reported excellent results, especially those who had an immediate need from an unforeseen death for which the family had no preparation in place. You couldn’t find a more competent, knowledgeable, or compassionate attorney.”

“We have used Jamie several times for issues requiring technical and legal advice from someone with a keen understanding of the law and the features of how the legal system works. He has always given us excellent advice and kept us well informed of the progress of the matter without spending unnecessary time on useless details.”

Marge was referred to us in the state of total chaos. Her house had recently burned to the ground destroying all of her worldly possessions including her beloved pets.

While discussing with her the need to put a plan in place to protect herself in the future in the event of her untimely death or disability we discovered that one of her daughters had been robbing her blind of her money behind her back. She was even attacked by this person at one point and had to be hospitalized. We were able to intervene and create an Empowered estate plan for her which completely removed her daughter from the picture. Her plan also included finding sufficient helpers for her making sure that when and if she does pass away there be no hassles and messes, no probate court fight, and no intervention by her estranged family. Unfortunately we see this type of situation all too often. All of which can be prevented with planning.

Susan was referred to us by one of our clients. She was facing a fight with her sister over the guardianship and conservatorship of her mother. During the discovery of the facts and circumstances which led to the probate court case we discovered that her sister had not only been depleting her Mom's assets, she was also trying to redirect her Dad's assets to her care so she could waste them as well. We were able to have her sister removed as a potential guardian for her Mom, redirect and protect her Dad's assets, and create a new Empowered estate plan for Dad that disinherited his selfish and unprincipled daughter completely saving another potential court fight and the unnecessary wasting of time, energy and money. As luck and life would have it Mom died shortly thereafter and, believe it or not Dad also died a short time later. The emotional loss to our client was devastating but at least the majority of Dad's wealth and values were preserved.

Our team is standing by to help you. As a matter of fact, we look forward to your call and the chance to serve you as we have served many others in our community. While we certainly can't guarantee any results, we may be the right law firm for you. The best way for us to find out is by calling me at 616-813-7099 to arrange a free consultation.