

# Closed Case Files Perpetuation Chronicles™

## EXCLUSIVE. THIS BUSINESS DOCUMENT HAS BEEN PREPARED FOR ENTREPRENEURS, BUSINESS OWNERS AND MANAGERS.

The Chronicles come from the exclusive files of Private Capital Corporation (PCC).

*The case stories are true. Only the names and places have been changed to protect the privacy and confidentiality of PCC clients.*

## CLOSED CASE 24 CASE BACKGROUND

Harry Ramsey began his wholesale food business on a shoestring in 1950. With his savvy and charismatic leadership, he grew it from obscurity to \$500 million in sales by 1985. Essentially, Ramsey was a dictator, but his employees trusted and loved the guy. He made good decisions and enjoyed the respect of his key people. He installed an ESOP (Employee Stock Ownership Plan) in 1985 that owned 30% of the business, allowing him to “cash out” some of his holdings while giving valued employees and managers a stake in the company. Ramsey had two sons, the younger of whom he eventually wanted to name CEO. The son had potential. He was well educated and in the years following received training at the hands of his father and other key people. The company continued to grow, but in 1988 Ramsey realized he could no longer afford to put off nailing down a firm perpetuation plan.

**CASE CHALLENGE** Preparing his son for ascension to CEO was easier said than done, Ramsey knew. Although his plans were not a secret, he understood the potential negative effects of nepotism. He didn't want to risk his key management eventually walking out and taking their expertise elsewhere, as well as valuable business, leaving his son to inherit instability and potential failure. He also wanted his other son to be treated fairly and his wife to have a secure lifetime income.

### PCC RECOMMENDED ACTION

- 1 Set aside a block of stock for key execs who sit on an Executive Advisory Board.
- 2 Approve a bonus program for the advisory board members. Tie the program to individual and company performance. Make provisions that an additional bonus in a good year could offset a bad year.
- 3 Help the execs buy their stock.
- 4 Set long-term performance objectives and link them to the granting of executive stock options.
- 5 Create a MSOT (Management Stock Ownership Trust) assuring that all shares would be voted by a committee. This measure would help avoid future control problems.
- 6 Immediately give the younger son stock although the move would involve a modest gift tax. Place insurance in a trust for the other son and wife.

**EPILOGUE** Ramsey retired in 1990. He admitted at the time that he had misgivings even though he had taken decisive perpetuation measures. His misgivings were misplaced. The more committed executive team eventually became his CEO son's “partners,” and a working partnership took the place of Ramsey's dictatorship. The company prospers to this day and the Ramsey family has the estate liquidity that assures them lifetime security.

PCC IS AN INVESTMENT BANKING FIRM, SPECIALIZING IN COMPREHENSIVE PERPETUATION PLANNING. FOR MORE INFORMATION, CONTACT US AT [WWW.PRIVATECAPITALCORP.COM](http://WWW.PRIVATECAPITALCORP.COM) OR [MMURRAY@PRIVATECAPITALCORP.COM](mailto:MMURRAY@PRIVATECAPITALCORP.COM).

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