

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 11 CASE BACKGROUND

Clarence Volker never made it to college. After high school, he worked for plumbing contractors in and around his small Kansas hometown. With several years under his belt, and a young family to support in the mid-60's, he risked losing a steady income in favor of finding a way to take charge of his future and make his skills and knowledge pay off. He began his own contracting firm with one employee – himself. But he wasn't a lone wolf for long. Clarence rolled along like Kansas tumbleweed and in 10 years became a major employer. He started a plumbing supply firm to complement the operating business. The two ventures meshed neatly and in a short time combined business doubled to over \$10MM. Volker's older son entered the business. Following college, the younger son became a stockbroker, married and left the area; but eventually Clarence persuaded him to take a key role in the family business. By now, Clarence realized his retirement was looming. What to do? He wanted to cash out his holdings but also wanted to perpetuate the business for long-term security. He had heard about ESOPs and had already hired a firm to conduct an appraisal and feasibility study, when he heard a talk that turned his plan right on its ear.

CASE CHALLENGE Should he sell one of his companies? Both? With significant retained earnings, he found his tax liability would be prohibitive. He learned the

ESOP strategy made no sense for companies with 50 employees, the majority of whom were union members and therefore wouldn't even qualify. With an outright sale and ESOP out of the picture, Clarence could see no way to cash out. He assumed he would stay on the company payroll indefinitely and gradually allow for his sons and key managers to exercise more control.

PCC RECOMMENDED ACTION

- 1** Change the nature and direction of Volker's original companies to investment and leasing companies.
- 2** Create two new companies that are owned and operated by the sons.
- 3** Clarence's investment companies sell their inventories and lease their hard assets to the new companies created by the sons.
- 4** Install a deferred compensation program for the founder.

EPILOGUE Clarence received a cash settlement from the sale of inventory to the new companies, avoiding a punishing tax liability had he sold them outright. His investment companies still collect lease payments from his sons' companies. The supply side of their business now operates several branches. Combined sales have risen dramatically, more than doubling the sales of the original two businesses. Clarence no longer is involved in plumbing. The sons have a buy-sell agreement. Clarence essentially has "retired," assured that ideal perpetuation will provide him long-term security.

PCC IS AN INVESTMENT BANKING FIRM, SPECIALIZING IN COMPREHENSIVE PERPETUATION PLANNING. FOR MORE INFORMATION, CONTACT US AT WWW.PRIVATECAPITALCORP.COM OR MMURRAY@PRIVATECAPITALCORP.COM.

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