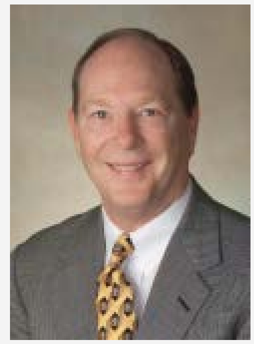
This issue brought to you by:

Denis M. Brown
dbrown@pacecapitaladvisors.com

Pace Capital Advisors, LLC
5279 Glenridge Drive NE
Atlanta, GA 30342
http://www.pacecapitaladvisors.com
404-843-8618



Equality and Fairness in Transfers to Kids

Stan Briggs was perplexed when he told his advisor, "My son, Patrick, has worked in the business for the last twelve years. In that time, the business has tripled its revenues and its profits. I've started to think about scaling back my activity and I realize how important it is (for my own retirement income) that Patrick be motivated to continue to grow the company profitably. Since I'd like to have him own the business someday, is there a way to start transferring it to him now? It seems unfair to make him pay for all of the business value since he created so much of it and since he is so important to my financial security. My son, of course, agrees wholeheartedly with this analysis but I'm not so sure that his mother and sister are on the same page. What issues do I need to consider?"

Equal vs. Fair

First, Stan must determine if his son is already paying for the business through "sweat equity" (more working hours, greater risk and lower compensation than he could have earned elsewhere). If so, any reduction in the purchase price is not a gift, but rather recognition of Patrick's contribution.

Second, are Patrick's efforts adding value to the business? If so, should Patrick have to pay for his efforts by receiving a reduced share of Stan's ultimate estate?

Third, if Patrick's involvement in the business is critical to Stan's retirement, Stan should consider tying his son to the business using "golden handcuffs," such as awarding ownership if Patrick stays to run the business—and the business stays profitable.

Fourth, in many business-owning families, every child is offered the opportunity for involvement in—and ultimately ownership of—the family business. Many times, however, only one child forgoes the allure of the “outside world” to commit to working in the sometimes uncertain and illiquid world of a closely held business. (Not to mention that having you for a boss should have some payoff!)

Where to Start

Analyze the transfer issue in light of your own goals. Be certain that any transfer to children will satisfy your exit objectives. Explore with your advisors other issues and concerns that may arise as you begin to transfer ownership to a child. For example, how much money will you need after you leave your business? What, if anything, needs to be done for your key employees or for your other children? Temper and qualify all transfers to children in light of your over-arching exit objectives. In short, make certain the transfer of ownership to a child is also a good business and retirement decision.

Using Advisors

When considering a transfer of your business to a child, don’t underestimate the value of using experienced consultants and advisors. Their counsel, experience and input are perhaps never more important than when dealing with your own family. The need for independent, non-emotionally-charged advice can be critical. Having worked with other family businesses, these consultants along with your other advisors can offer practical advice.

Decision Framework

- First determine the level of contribution your business-active child has made to the value of the business.
- Second, determine the contribution that child must continue to make to ensure the achievement of your exit objectives. Those determinations can form the basis of what is “fair” with respect to both the business-active child and the other children.
- Third, use your advisors to help explain, guide and implement the transfer of the business.

We are happy, as always, to assist you with analyzing the issues involved with a transfer of ownership to children.

As a Certified Exit Planning Specialist, Denis brings a unique blend of experience to the marketplace having been involved in more than 100 transactions as a buyer, seller, investor, advisor or financier of businesses throughout his career. He previously was involved in private equity for ten years and was responsible for identifying, underwriting, structuring, closing and managing investments including developing growth and exit strategies. In addition he has served as a director of a variety of both domestic and international privately held companies.

Pace Capital Advisors provides merger and acquisition advisory services to owners of lower middle market businesses in the Southeastern US, typically companies with revenues ranging from $5 million to $50 million. Our target market comprises entrepreneurs, family business owners, and other privately-held business owners who seek the guidance and counsel of proven merger and acquisition professionals when considering the complex set of options available to them for selling or transferring ownership of their business. Our services range from preparing business owners and their companies for the process of ownership transition to full responsibility for conducting a business sale process on the owners' behalf. Pace's principals have acquired and sold numerous businesses during our careers in private equity, corporate development, investment banking and venture capital. We know how to properly package and position a business to maximize its transferable value. Our experience includes over one hundred merger and acquisition transactions in which we have occupied almost every seat at the transaction closing table - buyer, seller, owner, lender, and M&A advisor. We know what it takes to make a deal work, strategically, financially and psychologically, how to prepare business owners and their companies for the sale process, and what it takes to close the deal. (404) 843-8618

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