

Exit Planning

You fought and clawed your way into business ownership. Then, several times, you did it again just to survive. The years rushed by. The kids are grown. A few of your retired friends have asked, quite crudely, "You gonna die in the saddle?"

Well? I guess many do. And they leave a big mess for the business and family unless they do considerable advance planning, work and communication.

Others, of course, exit of their own volition rather than wait for divine intervention. They do so to enjoy "retirement." Or to do something different while their skills are still sharp. Or to cash out when the business is on top.

One thing's for sure — you're the boss. You can have it any way you wish.

Die in the saddle or sell and take a traditional retirement. If you think I'm being trite, think again. Some business owners just don't want to do anything different. They continue to own, and manage, well past retirement age. That's okay. It's motivated by joy, fear or both. Joy of working. Fear of retiring. They either love their jobs and they can't see doing anything else, or they are scared of retirement and the lack of "something to do." For these people, the amount of sale proceeds is often less important — mainly because they'll have more years to fund retirement accounts using company funds and fewer "retired" years to finance.

Others will want to do something different. Retire, or have a second career, or not stay "beyond their time." If this is you, you'll likely want to maximize the after-tax cash you obtain from your business.

The reason is simple — you want to have the funds necessary to fully live out the next chapter of your life. In short, you will sell your company — and try to maximize proceeds. Many people just don't want to quit.

Whichever option you choose — retire or ride it out — a lot of planning will be required. With the former, a business sale is complex, time-consuming and risky. Business owners can waste a heck of a lot of time and money trying to get a deal done. With the latter, mechanisms must be put in place to ensure that the business and family are not placed in turmoil when something happens to you.

Whichever you choose — this issue of *The Business Owner Journal* has information that will help you make it work. □



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From the Editor

Business ownership is just craziness, isn't it? Most of us make considerable sacrifices to become "owners." Most of us then soon learn that it's just a ticket to enduring ongoing risk, working long and hard hours, and being criticized by people near and far — all for less than we could earn elsewhere.

Then, when you decide to do something different, you can't get rid of the darn thing! Which brings us to the theme of this issue — exit planning. The emphasis is on planning because it requires quit a bit of it.

Why is a business so hard to get rid of? Let me count the ways: finances, taxes, emotions, family pressures, legal hassles, paperwork, business management issues, etc.

Does it need to be so? A business is just a compilation of assets and people that generates an income stream. Businesses can be bought and sold just like a car or a collection of baseball cards. They can be sold, or given, to just about any person or company. Right?

Technically this is true, but practically it is not. A business has so many more "moving parts." Transferring ownership requires a whole lot more money and risk. And for the people involved, it's so much more. For many, it's life itself. A place. A means of self-expression. A source of satisfaction and friendship. That's why, when someone asks what the best way is to exit from a business, the simple and true answer is "very carefully."

Sincerely,



David L. Perkins, Jr.
Publisher and Editor



David L. Perkins, Jr.

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EMPLOYMENT

9 Tips to Make the Most of Your Holiday Party

Every year you must decide whether to have a holiday party. We say make it an annual tradition. The reasons are myriad. Here are a few:

- It's a time to say "thank you." Everyone wants to be appreciated. Do something nice for your employees. Show your appreciation. Offer a public and personal "thank you." Say the words out loud so everyone can hear. Repeat them. When employees feel appreciated, they're more loyal and productive.
- It's an opportunity to celebrate companywide accomplishments and discuss (in brief) the vision for the future. It's team-building and fosters a sense of purpose. Everyone wants to be a part of a winning team that has a future.
- It's an opportunity to give credit where credit is due. Recognize the top performers — both those who deliver results and those who exhibit the behavior you desire. Make it a public affair. Make others want to earn similar praise.
- It's a time to loosen up and get to know one another better, to build closer relationships. Familiarity breeds trust and stronger, more productive work teams.

You're on board? Terrific. Here are nine tips to consider:

1. Be sensitive that not all persons are Christian. Call it a "holiday party."
2. Get your employees involved in the planning. You'll get more buy-in and they can decide what's more appropriate and will be well received.
3. Be sensitive to your company culture. If a formal affair at the country club is where everyone will feel comfortable, go for it. If a pizza party at the bowling alley would be a hit, so be it. It's for your employees — make it fun for them.
4. It's nice to include "significant others" (don't refer to them as spouses). After all, work is a family affair. Make them feel welcome. Use name tags. Greet each one personally. Express your appreciation for the workplace contributions of their escorts.
5. Keep it an adults-only affair. You need this time together. Include the children at the summer picnic.
6. Get up and make a short, sincere speech. Take advantage of the opportunity for numbers 1, 2 and 3 above. Do it early in the evening — to set the tone and before people depart.
7. Have someone take pictures. Lots of them. Discard all the bad ones and share the great ones with all the employees. Post some on the walls. Great pictures can really help create a sense of community, family and good times.
8. If you want, have a party for customers and vendors, or if you want to have a big community open house, do that separately. Your employees need to be feted on their own. They need to be the center of attention.
9. Be a darn nice person! This way, when your employees go home and say you're a jerk, their significant other might argue to the contrary! □

Want a Healthy Company? Build a Healthy Workforce

Individual health and health care costs are substantially influenced by lifestyle choices. Influence a person's choices (i.e., behaviors) and you can influence his or her health. Influence the choices made by a group and you can influence the overall health of the group. This is exciting for business owners on several fronts.

Healthy lifestyle (behavior) contests or campaigns provide people with the opportunity to try out new behaviors (skill-building) within the structure and with the support of an organized event.

First, healthy employees are more productive. Second, healthy employees cost less. Third, quality of health is closely linked to quality of life. Help your employees improve their health and you've really done something of value for them and their loved ones. Fourth, employees who feel cared for will respond with loyalty.

Every company should install a wellness program. For guidance on where to start, we looked to the Wellness Councils of America (WELCOA).

They provided a Special Report by Mercer Health & Benefits titled "Rewards for Healthy Lifestyles," which outlined the essential elements of an effective behavior change program:

1. *Awareness:* Individuals must recognize that behavior changes would provide benefits and/or help them avoid unpleasant consequences.
2. *Commitment:* Once an individual is aware of the need to change, the individual must make a commitment to change. That is, turn "should do" into "must do."
3. *Skill-Building:* Once a commitment is made, Skill-Building is necessary to develop and sustain the new behavior. Individuals must gain the knowledge, hence the skills and self-efficacy needed to act on and meet their commitment.
4. *Maintenance:* Individuals learn to face and deal with obstacles they may encounter, and to manage lapses in commitment.

Research has shown most individuals go through the behavior change cycle — start, lapse, restart — six to seven times before they make a lasting change. Thus, it is unrealistic to expect everyone who starts to make a behavior change to sustain that behavior permanently after the first attempt.

Campaigns and Contests

Healthy lifestyle (behavior) contests or campaigns provide people with the opportunity to try out new behaviors (skill-building) within the structure and with the support of an organized event. These campaigns are most effective when they are designed to appeal to a broad range of people in the population (employees) — from those who may already be practicing the behavior to those who are not. They will also focus on an incremental change in individual behavior that is an improvement over the current

state, rather than meeting what may be a lofty, hard-to-attain goal. Effective campaigns and contests focus on the bigger picture of individual health status and a variety of lifestyle choices that relate to optimal health, such as increases in physical activity, making healthier food choices, and improved self-esteem.

Some examples of popular health improvement contests or campaigns are smoking-cessation programs, exercise and healthy-eating campaigns, health improvement seminars, community wellness events, and weight-loss contests. The ideal campaign combines several of these elements and also provides obvious connections (references) to other programs and resources that exist in the overall health management program.

Rewards and Incentives

Rewards or incentives often are used to encourage employees to participate in contests or campaigns, and have been demonstrated to be very effective in driving enrollment. Although the goal is ultimately to help individuals develop internal (intrinsic) motivation to practice healthy behaviors for the benefits they provide, external motivators (rewards or incentives) can provide the initial "push" to get people started. External rewards also can keep people motivated in the early stages of practicing a new behavior before the benefits of the new behavior are fully realized and internal motivation is developed.

Instant Results vs. Learning Through Participation

People who join a campaign or contest are not likely to continue practicing that behavior permanently after the contest ends. If the ultimate goal is to help people make healthy lifestyle choices consistently, then the result of completing one campaign (e.g., 10,000 steps a day for 8 weeks, eating five portions of fruits and vegetables each day, losing 10 pounds in 12 weeks, etc.)

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"There's no question that workplace wellness is worth it. The only question is whether you're going to do it today or tomorrow. If you keep saying you're going to do it tomorrow, you'll never do it. You have to get on it today."

*Warren Buffett,
Chairman, Berkshire Hathaway*

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may not be as important as learning and practicing skills that can be used for a lifetime of healthy living.

In addition to learning skills, participation leads to increased self-confidence, which improves the likelihood that new behaviors will become permanent at some point in the future.

Rewarding participation (meaning completion, not just enrollment), rather than the result or outcome of a contest or campaign, is more beneficial and supportive for individuals who want to improve their health for the long term. If the contest “winners” are only those who achieve the best result, then those who “lose” will receive negative reinforcement. In other words, their belief that they can’t succeed at practicing the behavior will be reinforced. Those who think they will have no chance of “winning” will be deterred from even enrolling in the contest or campaign, and an important opportunity to reach those who need the most support may be missed. Further, if participation is rewarded more than results, all who participate are winners, their confidence increases, and their belief that they can make healthy behavior changes (self-efficacy) is enhanced. The contest or campaign can be the first step for many toward eventually making permanent behavior changes.

So what are you waiting for? The very health of your business may hang in the balance. Install a wellness program, beginning today. The benefits are myriad. Get help from The Wellness Councils of America (www.welcoa.org) and Mercer Health and Benefits (www.MercerHR.com). □

How to Avoid Air Travel Delays

Your time is valuable. If you knew which flights were most susceptible to delay or cancellation, you’d avoid them — or at least prepare yourself. Now you can do so with ease at www.flightstats.com.

First, look up recent carrier performance. This requires that you sign up and log in, but it’s free. You’ll find a recent summary of airline on-time performance.

Next, use flightstats.com to help you select a particular flight. For example, let’s assume you want to go from Dallas to St. Louis. We entered this information and the following appeared. It’s a report of the performance of all flights running this route within the past 30 days.

Flightstats.com Report of Recent Flight Performance Dallas to St. Louis

Flight	Carrier	On time %	Delays (min.)		Cancelled Flights	Diverted Flights
			Avg	Max		
AA1076	American Airlines	100%	5	8	0 0%	0 0%
AA 890	American Airlines	86%	18	120	0 0%	0 0%
AA 2024	American Airlines	81%	26	127	0 0%	0 0%
AA1186	American Airlines	90%	43	83	0 0%	0 0%
AA1610	American Airlines	80%	32	36	0 0%	0 0%
AA 690	American Airlines	76%	29	176	1 1%	0 0%
AA 522	American Airlines	71%	23	126	0 0%	0 0%
BA 5081	British Airways	76%	35	239	1 1%	0 0%
AA 2294	American Airlines	66%	54	86	0 0%	0 0%
AA 670	American Airlines	69%	39	150	2 3%	0 0%
AA 2226	American Airlines	55%	37	149	2 3%	0 0%

You definitely want to avoid flight AA2226. It was on time just 55% of the time, with average delays of 37 minutes, not to mention the cancellation risk. □

Squeeze Extra Cash Out of Your Company!

Last year, 1,000 of the biggest U.S. companies unlocked a combined \$72 billion from their balance sheets, according to the *Wall Street Journal's* review of a survey conducted by Hackett Group. We’re not talking about cash flow from operations. We’re talking solely about their balance sheets. An average of \$72 million each — generated by working hard to speed the collection of receivables; improve inventory turns and thereby reduce

total inventory on hand; selling equipment and other tangible assets that aren’t being used; and stretching vendors (accounts payable) a little further.

You can do this, too. The result can be a permanent cash windfall that costs you not a nickel in taxes. Use it to pay down debt, take home to your family or maybe just survive ‘til things turn around. □

“You have to know your goal. You have to have a mental picture about what you want to be ... what you want to look like. And you have to have a reason behind it. Most people don’t have a reason ... someone just told them to go to school to be a doctor or a lawyer.”

*Arnold Schwarzenegger**

** The Aspen Times, January 25, 1979*

It's a Jungle Out There. Listen Like an Animal.

Dr. Doolittle not only could speak to animals, he could listen to them. He understood that being a good leader meant being a good listener. That being king of the jungle was not based on how loud you roar.

To lead effectively, you must become a great listener. You also must create an environment where others feel safe to share information — the very information you desperately need. The good news is that being a good listener is an acquired skill. You can improve. And the simple, consistent display of good listening skills can play a large part in establishing the culture you desire. So let's take a moment to improve our listening skills. Let's do it through the eyes and ears of Dr. Doolittle.

Choose to Listen: Rabbits can hear twice as much as humans. Listening is key to their survival. Do they take their gift for granted? No, they keep their ears up like sonars. The first key to effective listening is simple: choose to listen and learn. If we want to survive in our spheres of influence, and thrive, we must choose to listen.

Get in Position: Have you ever watched Labradors listen (and look) for birds? Whether sitting or standing, they get their entire body in position to listen and look with intent. You should do the same. Get your entire body in position to hear. Signal with your body that you are listening with great interest.

Sustain Eye Contact: Have you ever watched a cheetah hunt? Their eyes never leave their prey. They may crouch in tall grass, but wherever their prey goes, so do their big cat eyes. Do the same. Eye contact speaks volumes. It shows respect, helps you keep focused (listening), and is a sign of high self-esteem.

Provide Constant Reassurance: Chimpanzees nod and make noises as they communicate with one another. You, too, need to nod in affirmation and say "uh huh," and "okay" to constantly show your attentiveness. These simple gestures encourage our colleagues to keep talking and lets them know we are active listeners. Jumping on the furniture and throwing bananas isn't necessary.

Repeat and Affirm: The ultimate affirmation that you are listening and understanding is to be like a parrot. That is, summarize what you've heard. Great listeners provide verbal summaries as their colleagues speak. Example: "So I hear you say ..." or "If I understand correctly, you mean..."

Research shows that 93% of communication occurs nonverbally. Even so, humans seem to overuse their unique ability to communicate through words. Steven Covey calls it "dialogue of the deaf." Comic Steven Wright captures the concept in his line: "My mechanic told me, 'I couldn't repair your brakes so I made your horn louder.'"

Want to become a better leader? Boss? Friend? Improve your listening skills.

Listen like the rabbit, Labrador, cheetah, chimp or parrot. □

Chris Zervas of Summit Solution Group contributed his communications expertise to this article. You can reach him at chris@summitsolutiongroup.com.



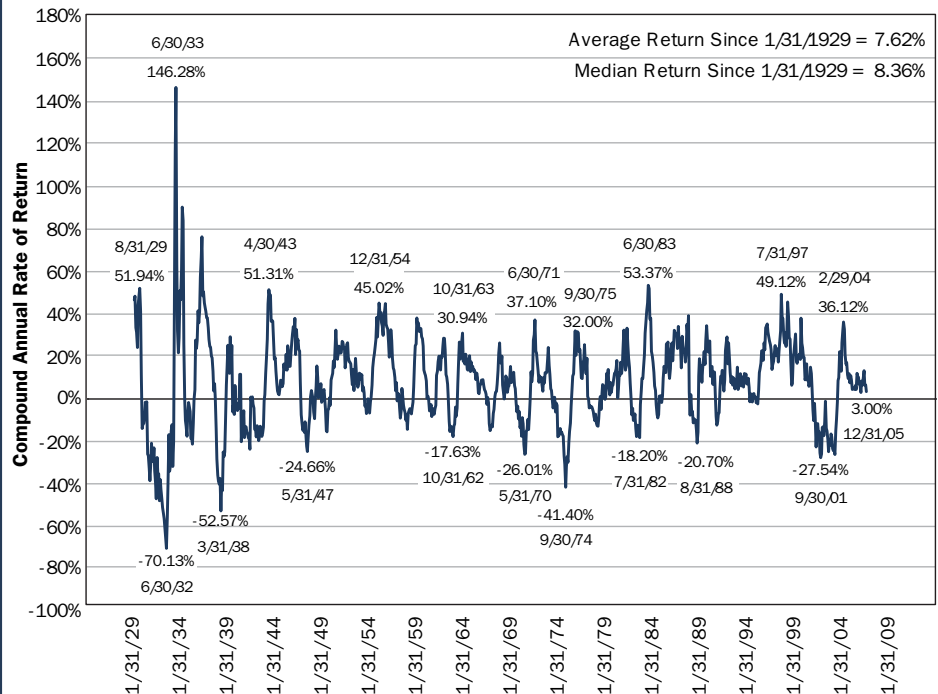
"Tell you what, rub my tummy and it's a deal."

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CHARTS FOR SUCCESS

Standard & Poor's (S&P) 500

Historical yearly rate of return



Average Return Since 1/31/1929 = 7.62%
Median Return Since 1/31/1929 = 8.36%

Data as of July 2006

* dividends not included in return calculations

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Ask the Expert: Subpar Employee Performance

By Dr. Jay Kent-Ferraro

Question: I own a small business and am trying to improve the way we do things. I have asked my two key employees for regular reports on certain things, including progress on strategic goals. For the fourth straight month now, their reports are poorly written and lack meaning and focus. I've told them so each time, but they're not improving. Where do I go from here?



Dr. Jay Kent-Ferraro

Answer: Performance problems such as these generally fall into one of two categories: *communication breakdown* or *environmental roadblock*.

Communication Breakdown is a problem in communication between you and your employee. Does he or she really know what you want? Sure, you've told them, but did they really hear and fully understand?

Coaching Tip: Instead of simply expecting them to understand, ensure that you have communicated clearly. Develop a back-and-forth dialogue and really try to get them to understand. Better yet, show them. Design a report template with the type of information and format you desire. Review it with them in detail, explaining the key sections and objectives. Compare their work to the template and help them see where theirs is deficient. Then privately and publicly reward improvement!

Environmental Roadblock addresses environment hindrances. Maybe the employee is unable to gather the information needed for the report. Or maybe they don't have the writing skills or other tools necessary to get the job done. Maybe they're afraid of the consequences if the true data are revealed.

To be sure, poor performance due to environmental roadblock(s) requires a different response from the one required for poor employee performance.

Coaching Tip: Don't speak employee empowerment – do it! Once you're sure they understand WHAT is desired, ask them to find out why failures persist. Have them give you specific issues and potential solutions. Then get out of the way and let them deal with the problem. Tell them nothing is off-limits and invite candid communication with you about the findings. Now you're on your way to building a culture of success! □

Dr. Jay is a psychologist and coach to business owners and executive teams. He also has an MBA from University of Phoenix. Send your questions to Editor@TheBusinessOwner.com.

Laugh a Little

An efficiency expert was wrapping up his lecture to a group of business owners.

"A word of caution," he said. "Be very careful about trying these techniques at home."

"Why?" asked someone from the audience.

"I watched my wife's kitchen routine for years," the expert explained. "Making dinner, for example, she made lots of trips between the refrigerator, stove, table and cabinets, often carrying a single item at a time."

"One day I told her, 'Honey, why don't you try carrying several things at once?'"

"Did it save time?" the guy in the audience asked.

"Actually, yes," replied the expert. "It used to take her 30 minutes to make dinner. Now I do it in 10." □

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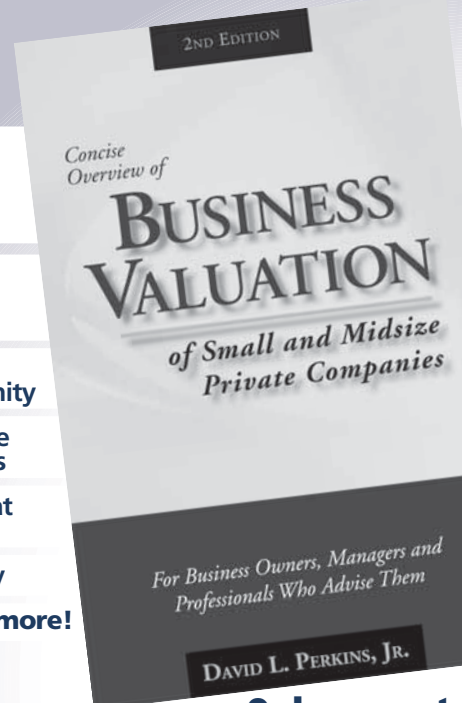
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Sell It, Make a Bundle and Get to the Good Life!

Who wouldn't want to retire? Sell the company and put money in the bank? Have the time and freedom to travel, play tennis, exercise and volunteer? Spend more time with the grandkids?

For most of us, the only questions are when and how.

To be sure, timing is critical. The time to sell is when your business is on a good

The best time to sell is when your revenue and profits have been growing, the economy is hot and times are good in your industry.

run of consecutive annual profits. The *best* time to sell is when your revenue and profits have been growing, the economy is hot and times are good in your industry.

That's right. Buyers want companies that have established

growth and profits, and the price they'll pay will be some multiple of annual profit. Before you spend time trying to find a buyer, focus on building a proven profit engine. Then, remove all of the following from your company. They sap value and turn away buyers:

Customer concentration: No customer should account for more than 10% of annual revenue.

Vendor concentration: If your primary vendor "went away," would it have an effect on your business?

Owner dependence: Do you play a vital role in your business? If so, you have a problem.

Site Dependence: Does your business depend on a particular site or facility? Can the buyer be sure that he or she will continue to be able to control the site? At a predictable price?

Product or Service Concentration: Are you a one-trick pony? If you have just one product or service, your business may need to diversify before you try to sell it.

Concentration of talent: Does your business depend on one or two key people who would be difficult to replace? Buyers will shy away from businesses that could be badly hurt by the loss of a single relationship, be it an employee, representative, vendor, customer, et al.

Lack of Growth: If your business isn't growing, you will have a hard time selling it for an attractive price.

If your business suffers from any of the above limitations, you'll likely be disappointed by what buyers are willing to pay. You might be disappointed

regardless, because private companies often don't sell for substantial premiums, but the listed limitations will substantially deflate sale price and terms.

So get the business ready. Then, when the timing is right, what next? How do you go about it?

First, understand this: Selling a business is a complex, time-consuming and risky endeavor. And to get an honest price, you'll need more than one buyer. Locating and working multiple buyers takes time and savvy. Even if you could handle it, you'll risk looking desperate, greedy, flighty, or all three. Sure, we've all heard about the sellers who represented themselves and "did just fine." But I guess you'll know if the pot of gold seems to be coming in for a landing. If it's not, I suggest you find an experienced, educated, honest, diligent and confidential person (or firm) to make it happen. Not just anyone. One who's in the top 5%. If your business is small and likely will sell to an individual, hire a local business broker. If your business can legitimately attract large corporate or investment group buyers, find a merger and acquisitions intermediary (or firm) with those kinds of connections and experience. Find one and then, once you

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For Sale by Owner?

Remember the old saying: "The person who represents himself has a fool for a client"? Athletes, highly paid executives and persons involved in legal disputes adhere to it. Unfortunately, some business owners do not. No doubt, you're an amazing person — but you have to admit that you can't do EVERYTHING. Otherwise, you would have no employees, no suppliers and no worries. The fact is, when you decide to sell your business, you must enlist other professionals. It will be expensive, but the investment you make will lead to a greater payoff. Doesn't that sound like something you've said before? It's good advice.

What? You still think you can do it yourself? Consider the following:

Emotions: Even though you may be the kind of person who is skilled at keeping emotions in check, when it comes to your little slice of the American pie, you're bound to be emotional.

Judgment: There is no way you can see your own business objectively. Either the limitations of your business are too deeply etched in your soul and you underprice, or your expectations far exceed what the economics of your business will support. Either way, you're wasting time, money and opportunity.

Time: How much free time do you have? If you're like most business owners, you

work 40 to 70 hours in a typical week. Why? Because your business needs you, of course. So where are you going to find the hundreds of hours that it can take to complete a successful business sale transaction? Now is not the time to let business performance slip. You should focus on increasing revenues and profits and delegate the time-consuming business sale tasks to a good intermediary.

Independent reps can qualify buyers without revealing the identity of the seller.

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Never Let the Buyer Work in the Business!

“After the troops have crossed the bridge, burn it,” ordered the battalion commander.

“But that’s our only way out!” shouted a shocked lieutenant.

“Yes, burn the bridge,” insisted the commander. “Our only option will be to defeat the enemy.”

Sometimes, if the job is really tough, the only way to ensure success is by making it the only option.

Assuming ownership of a new business is one of those tough, scary-as-heck jobs. It’s tough for the business buyer. It’s also tough for the seller, employees, vendors, customers, et al. Nobody’s comfortable with change. In a business purchase-sale transaction, if you don’t burn the bridge, retreat will be the more likely result.

One of my favorite quotes is: “The path of

least resistance makes crooked rivers and crooked men.” Buying a business is not easy. Neither is selling one. An often-discussed and occasionally attempted “path of least resistance” is to “let the buyer work in the business for a while.” That way, the buyer can get more comfortable with what he is buying and the seller doesn’t have to immediately and abruptly begin life absent the “owner” title. This is a natural “middle ground.” But it does not work.

I know, your situation is different. So go ahead. But be prepared to waste a lot of time and energy. Or worse.

Buyers unwilling to take the plunge either don’t have the money or don’t have the guts. Or they could have other plans altogether. Take the case of Paul Westing. He owned a company, and finally found a

buyer — Kelly — who was willing to pay a fair price. He was also a very nice person. Kelly did have money — quite a bit — but darn it if by a strange quirk he could not get his hands on it just yet. His explanation made sense, so it was decided that Kelly would work in the business until his money became available. All the better, it seemed.

The business purchase-sale transaction is one that is tough for all involved. I don’t recommend that you first dip in your big toe. Wait until you’re good and ready. Then take off all your clothes and dive in.

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Going Public: Dream or Reality?

Many private business owners dream of “going public.” It’s the ultimate entrepreneurial status symbol. Build a company and take it public? Well, you’ve really done something.

Despite public perception, public markets are not a means for “selling out.” They’re a source of capital.

The mission of this publication is to empower you, the business owner, with information you need to survive and thrive. To help you make good decisions and avoid bad ones. To that end, we help you avoid wasting time and money. For 99.9% of us, “going public” is all dream and no reality. Here’s why.

First, despite public perception, public markets are not a means for “selling out.”

They’re a source of capital. Growing companies need a lot of capital, and investors want to put money in companies that grow rapidly and promise healthy returns.

Second, investors in public companies want proven, high-caliber management running the companies they invest in. If you’ve grown the business, made it a success, and now want to depart — well, you have a problem if you hope to “go public.”

Third, it’s very expensive to operate as a public company. And it’s become a lot more expensive with the new Sarbanes-Oxley legislation. To be cost-effective, companies must have healthy profit to make it economical.

Fourth, “going public” is not for any ol’ company. That’s because the value of being public is primarily in the ability to sell shares on the open market. Liquidity. If your company does not have enough appeal to attract the attention of investors — ones that

have lots of sexy options, such as Google, YouTube, Toyota and Disney — nobody will be there to buy your shares. So you end up like many others — enduring the burdens of being public but not enjoying the benefits.

In summary, public markets are a source of capital, not really an exit strategy. And they’re a source of capital only to very large and/or incredibly compelling and high-growth firms. You and I better spend our time on more traditional capital sources and exit alternatives.

“If your market capitalization (i.e., the value of your business) is less than \$200 million, it’d be very difficult to ‘go public’ today and have any success. Institutional investors are a big part of the market and they won’t look at you if you don’t have sufficient size. You’ll also need a very compelling story, such as significant demonstrated growth and/or very unique or innovative products or services.”

Lance Lange
Director, Equity Capital Markets Group
Robert S. Baird & Co.

“To go public today, you need to raise at least \$75 million and have a minimum market cap of \$400 million. Sure, a reverse merger will get it done, but it won’t get you the benefit of being a public company unless you meet the basic criteria that will get you invested in by institutions and followed by analysts/equity research.”

Stephen P. Bishop
Vice President
Southwest Securities □

Don't Sell. Retirement's for Wimps!

Heck no. You don't have to retire. Strom Thurmond remained a U.S. Senator through the age of 100. Dwight Hauff is 101 and owns Hauff Sporting Goods in Sioux City, Iowa. Jack Weil is 104 and still owns Rockmount, a Denver-based manufacturer of Western shirts. Carl Stevens is 86 and owns Total Plumbing.

Most people retire in their early 60s. Millions dream of retiring into a life of leisure. But it's your life. It's your business. Do it your way. Don't sell. Just make arrangements so that when something happens to you, the business will go on and the family will not be left with uncertainty. Do the following:

1. **Get out of management:** How can you insulate the business from the risk of "something happening to you"? Make yourself unimportant. Get out of management. Remove yourself from the organizational chart. Get to where you can take two months off and the business does not miss a beat. Your quality of life will improve and you can spend your time focusing on leadership, vision and growth initiatives.
2. **Automate ownership transition:** Selling a business on the open market is a real chore. You probably don't want to pass this job on to your heirs. A better solution is to determine, in advance, whom you want to succeed you as owners. Certainly, you'll want to discuss this with the recipient as well as your legal and financial advisors. Typically, it's a spouse, child or employee. You'll want built-in mechanisms that deal with financial and tax implications of your structure. Insurance can be a tremendous tool for dealing with timing uncertainties and contingent financial obligations. Given ample time and skilled planning, almost anything is possible. Just be sure your plan does not cause undue hardship (financial, tax, legal or otherwise) and that there is no dispute over control.
3. **Establish who will step in if you become incapacitated:** You'll want to provide, in writing, a clear protocol for when and if you may be deemed unable to manage your own affairs (and those of the business); who will step in to take your place; and any limits to that person's authority.
4. **Provide for your family:** Often, the business is the main source of wealth for a family. How will your plans for your business impact your family? Will they lose their source of income? Inherit financial or managerial obligations? Inherit wealth that could cause problems? Unleash disappointment or jealousy? These are critical issues for any family. You'll want to investigate the various scenarios; talk to experts; and likely prepare your family, in advance, for what the future holds.

Laying the groundwork to "do it your way" will take a lot of time, work, thought and the assistance of experienced experts. Nothing new to you. Nothing good comes without hard work and sustained effort. □

For Sale by Owner?, continued from page 8

Special Knowledge, Skill and Experience: You own and run a business. The skills that you have are rare and valuable. But it is unlikely that you are an accountant, attorney or business intermediary. Selling a business takes specialized skills and abilities. You'll want to gain them through representation.

Adversarial Wall: Why are representatives used — by individuals, companies and governments — to negotiate very important agreements? Because it works. This strategy breaks down the adversarial wall that naturally arises between buyer and seller when the stakes are high. For the seller of a business, it protects the seller's relationship with the buyer (key to getting a good deal done) when it's time to get tough. In other words, if you say "I want more," you're greedy. If your representative says it, he or she is just doing his or her job.

Confidentiality: You don't want your employees, customers and competitors knowing that you are selling your business. It could hurt your company and your sale price/terms. The key is to move swiftly and introduce the business only to buyers who are pre-qualified. Of course, as soon as the business owner approaches a buyer prospect, his identity is revealed. Independent reps can qualify buyers without revealing the identity of the seller.

One thing you may have in common with other business owners is your dislike of paying professional fees. You want to engage their services only when it is absolutely critical. Well, selling your business is one of those absolutely critical times. It could be the most important economic decision of your life. As we discussed above, it will be an intricate and time-consuming task. Even if you could do it, who is going to continue to run your company — and keep it successful — while you spend the 300 to 900 hours required? You will need to budget for the services of three professionals:

1. Business Purchase/Sale Expert ("Dealmaker")
2. Legal Expert
3. Tax Expert

The only one of the three who is proactive and strategic is the dealmaker. Begin by finding a great dealmaker to handle the project. If all goes well, you'll have ample time to secure the legal and tax assistance. □

Sell It, Make a Bundle and Get to the Good Life!, continued from page 8

start, get it done. The word eventually will get out on the street, despite your best efforts. The best protection is to move fast and get a deal done — before your offering goes stale and the economy weakens. □

Note: There are a few national "merger and acquisitions" firms that put on a great show (typically a local seminar), use all the buzzwords, and tell you they can sell you for big money if you will just pay them \$20,000 to \$50,000 up-front. Don't do this! No matter what they've said and how pretty their fancy charts are, they're in the up-front fee collection business — not the business-selling business. They prey on the hopes and dreams of the honest and trusting business owner (and they make a lot of money doing it).

About the Publisher



David L. Perkins, Jr. owns, writes, edits and publishes *The Business Owner*, the newsletter of choice for more than 35,000 paid

business-owner subscribers who are serious about building wealth through successful private business ownership.

Perkins draws editorial ideas and inspiration from his daily work as a merger and acquisitions consultant, where he has advised on more than 100 purchase/sale transactions involving both private and public companies. His M&A consulting firm is Vercor, which has 10 North American offices and a European affiliate. Vercor specializes in sell-side representation of businesses valued between \$5 million and \$50 million (see www.VercorAdvisor.com).

Perkins holds a BA in psychology from the University of Oklahoma and an MBA from the University of Notre Dame. He has formal training in business valuation. He also pulls editorially from prior experience in commercial real estate leasing and brokerage, commercial bank lending and private company financial management.

Perkins is the author of [A Concise Overview of Business Valuation](#) and co-author of [The Business Sale, An Owner's Most Perilous Expedition](#). Both may be purchased at www.TheBusinessOwner.com.

Perkins is a professionally trained, content-rich platform speaker available for both keynote and breakout sessions. He is a Certified Toastmaster and a member of the National Speakers Association.

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ESOP: Your Dream Exit

The Employee Stock Ownership Plan (ESOP) is a one-of-a-kind method for selling ownership in a private business. Congress created the ESOP tax incentives in an effort to foster broader employee ownership of companies and nudge business owners to provide retirement plans for their employees. The incentives are provided to both the sellers and buyers involved in the ESOP transaction. Therefore, an ESOP is a way that a business owner may sell his or her business to employees and receive tax benefits for doing so.

Typically, the business owner forms an ESOP trust, a legal entity created with the help of a lawyer. The newly formed ESOP trust then takes out a loan to purchase the owner's common stock. The loan is collateralized by the purchased shares and often a seller guarantee. The company then contributes a

A business owner may sell his or her business to employees and receive tax benefits for doing so.

portion of its monthly cash flow to the ESOP, deducts the amount as a retirement plan contribution, and the ESOP uses the funds to repay the funds that it borrowed. If the ESOP does not use leverage, then the payments go directly to the seller as payment for his or her shares. In either case, shares are then allocated over time to employees as they earn the benefit and meet vesting requirements. In this way, the owner's stock in the company is purchased by the ESOP and distributed to the employees.

The advantages of the ESOP begin with the seller's ability to defer capital gain tax. This can be done if the business is a C-corporation, owns a 30% or greater stake in the business, and the seller(s) invest their proceeds in domestic corporate securities within the first 12 months. In addition, company payments to the ESOP to repay borrowed funds, both principal and interest, are tax deductible. Moreover, if the company is 100% owned by the ESOP and elects to be treated as an S-corporation for tax purposes, all of the earnings of the company are exempt

from federal income taxes, just like a qualified retirement plan. Finally, employee ownership not only may improve company performance but may allow management and employees to maintain their independence.

Only companies with strong cash flow need apply.

But the benefits described above come with strings attached. First, ESOPs are costly. Some practitioners say that setup fees, much like real estate commissions, run between 4% and 7% of the total value of the business. Annual administrative fees for yearly business valuation and required recordkeeping run in the five to low-six figures. Second, most ESOP buyouts must be funded with debt, which raises the business' financial risk and cash flow burden. Only companies with strong cash flow need apply.

Next, few buyouts can be effected with 100% leverage. As such, the seller must self-finance and/or agree to sell blocks of stock over time (i.e., years). This also brings into play the prospect that some portion of the seller's shares will be for minority blocks, which will suffer a minority interest discount price. Finally, as mentioned, some lenders may require the seller to personally guarantee the ESOP debt and/or pledge the ESOP proceeds until some amount of the borrowing is paid off.

In summary, the ESOP offers powerful and compelling benefits — but it's not for every person or every company. It adds an ongoing layer of cost and usually involves the use of leverage, so good candidates will have healthy profits and cash flow. It also often requires that the seller accept a buyout over time and bare some ongoing financial exposure to the business — at least for a few years. If these aren't deal killers, you may have a lot to gain from an exit by ESOP. □

Ms. Carol Mayo Cochran of REDW Business and Financial Resources, LLC (www.REDW.com) contributed her considerable expertise for this article. You can reach her at ccochran@redw.com.

Pros and Cons of ESOP

Benefits to Business Owners Selling by ESOP

- **Flexibility:** Equity holders (sellers) can sell any portion of their ownership to the ESOP and simultaneously sell or gift any portion of their ownership to any other party in any manner or arrangement they choose — at any time they choose.
- **It's a stock sale!** Sale by ESOP is always a stock sale and often provides substantial legal and tax advantages to the seller.
- **Zero tax?** C-corporation sellers can defer 100%* of their tax bill by rolling sale proceeds into qualifying publicly traded securities.

* If your company is incorporated in a state that has NOT adopted the federal ESOP law, you may not be able to defer state capital gain taxes.

- **What's good for the goose:** After the ESOP sale takes place, your business can expense (i.e., deduct from income taxes) payments to the ESOP (they're retirement plan contributions). The ESOP trust does not have to pay taxes on the receipts (it's a non-taxable entity), nor do the employees (they own shares within a retirement account, which is tax-deferred). In this way, ESOP/employee-owned corporations can avoid federal income taxes (and in many states, state income tax) to the extent that the business is owned through the ESOP. In other words, if 70% of the business is owned by the ESOP, 70% of corporate income is not taxed. In this way, cash flow is improved and buyout debt can be amortized sooner.
- **A job — if you want it:** As the seller, you can remain active in the business and retain operating control even after selling all or most of your company

Drawbacks to Business Owners Selling by ESOP

- **Seller Financing:** Owners who sell by ESOP rarely can get full cash payment at closing. More often, the seller must accept payments over a number of years from the cash flow of the business. The seller may have to continue to bear some financial risk for years if the business falters. In addition, if leverage is used to buy out the seller, lenders may require the seller to personally guarantee the loan for a specified period of time. Finally, sale proceeds tied up in a seller finance note are not available to purchase “qualifying securities” and thereby receive tax deferral.

Mitigant: Most business sales include seller financing. In fact, studies show that 70% of private company sales contain some portion of seller financing, most commonly 50% of the sale (see *Transaction Patterns* by Toby Tatum).

- **Seller may “leave some money on the table”:** If you don't offer the business to all potential buyers, then you may never know whether you could have sold it for a better price.

Mitigant: You can always offer the company globally and have an ESOP appraiser value the business, then choose the

route that offers you the most attractive terms. But this is often hard to do because the process of finding potential business buyers can be very inefficient. There is no way to determine in advance everyone who might be interested in buying your company. Even with a well-planned and proactive campaign, buyer candidates tend to “trickle in over time.” Furthermore, over time, even in mere months, motivations, strategies and markets can change your desire or ability to pay off particular buyers. The result is that you are always left wondering if you'd waited a little longer or searched a little more, you could have found a better deal.

Benefits of the ESOP to Companies Owned in This Manner:

- **Stability:** Companies purchased by employees by ESOP are far more likely to remain intact and operate as independent entities (as opposed to being bought, sold, merged, relocated or liquidated).
- **Improved Employee Relations:** ESOP-owned companies have fewer incidents of employee litigation, fewer workers' compensation claims, lower turnover and a heightened ability to recruit and retain talent.
- **Lower Borrowing Costs:** ESOP may add financial flexibility and/or provide a way to lower your cost of borrowing. The ESOP can borrow money and use the funds to buy additional ownership (shares) from the company. The ESOP enjoys tax-free status and, therefore, a lower borrowing cost. The company gets the funds.

There are more than 10,000 ESOPs in the U.S., covering 8 million employees.

Source: The ESOP Association

Drawback of the ESOP to Companies Owned in This Manner:

- **Cash flow obligations, take 1:** The ESOP is basically a leveraged buyout. It is a mechanism whereby the company buys itself from the owner and then, over time, distributes purchased shares to its employees (at no cost to them). It binds the company to cash flow-sapping buyout payments and adds financial risk.
- **Cash flow obligations, take 2:** Setup costs can be substantial — estimated at 3%-6% of the total purchase price. In addition, regular appraisals are required to value the shares of stock, and management of the ESOP requires ongoing administration, reporting, etc.
- **Cash flow obligations, take 3:** The ESOP is a defined contribution retirement plan and, as such, is obligated to buy back the stock of departing employees. If many of the employees are near retirement age, this could create a cash burden on the company/ESOP.

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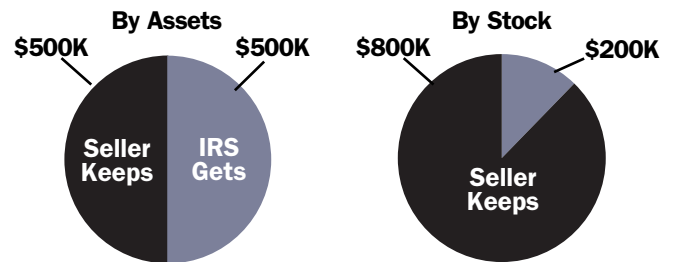
Trouble Finding a Buyer for Your C-Corp Stock? Consider the ESOP

If you own a business organized as a C-corporation, you could face a wealth-draining dilemma when you try to sell. Buyers of businesses want to effect the purchase by buying all assets of the business, as opposed to purchasing shares of stock from the person(s) or organization(s) that hold(s) them. This is because the asset purchase offers the buyer substantial tax benefits and liability protections compared to the stock purchase. But an asset sale throws the C-corp seller smack into the teeth of double taxation.

If you demand that the sale be effected by stock, buyers often will decline altogether or substantially reduce the price they'll pay and require the seller to assume some ongoing liability. The May/June 2006 issue of this publication offered mitigating strategies. Here's another: Sell by Employee Stock Ownership Plan (ESOP). No doubt you've heard of it. It's a kind of management-led leveraged buyout with major tax advantages — and it's always a stock sale. If your business has the size, cash flow and management depth necessary and you have confidence

in the future of your business, it's the knock-it-out-of-the-park solution for the C-corp seller. Not only do you avoid double taxation, you can darn near eliminate taxes.

XYZ Company Sells for \$1,000,000



Note: ESOP benefits are not just for C-corporations, but tax advantages of ESOP can be extra-valuable to owners of a C-corporation who face double taxation on an asset sale. □

Pros and Cons of the ESOP, continued from page 12

Benefits to Employees of an ESOP-Owned Company

- **American Dream:** Employees receive ownership in the business over time for free (or as a part of an overall compensation package).
- **Liquidity:** Employees have a ready market for their shares if and when they depart, as long as the company has sufficient liquidity.
- **Security:** ESOP-owned companies highly value the interests of the employees, whereas traditional owners by nature consider their own interests first, which could lead to a sellout and liquidation.
- **Benefits:** Research shows that employees of ESOP-owned companies enjoy higher pay, better benefits and twice the retirement benefits of their counterparts.

Drawbacks to Employees of an ESOP-Owned Company

- **Discrimination:** If the seller takes advantage of the capital gains tax deferral option, family members of the seller and 25% of the

stockholders must be excluded from the ESOP.

Mitigants:

1. With today's low federal income tax rates, many sellers are not taking advantage of the tax deferral option.
2. If the seller wants a family member(s) to own a block of stock in the company, the seller may gift or sell any amount he or she desires before or after (assuming the seller retains some of his or her shares) initiation of the ESOP.
3. 25% of owners who want to participate in the ESOP as employees can sell shares prior to formation of the ESOP, or sell to the ESOP at inception, to lower their stake below the 25% threshold. □

Ms. Carol Mayo Cochran of REDW Business and Financial Resources, LLC (www.REDW.com) contributed her considerable expertise for this article. You can reach her at ccochran@redw.com.

Never Let the Buyer Work in the Business!, continued from page 9

Four months into the arrangement, Kelly failed to show up for work. Turns out he had embezzled cash, credit cards and other valuables. Another lesson here: If the buyer is offering more than others, there may be a good reason.

Sellers also get cold feet. Serious buyers (those with both guts and money) should be aware of this. Ask Danny Gainsburg. He worked out a deal with the owners of a very successful bookstore. Together, they agreed on the path of least resistance. They'd "move slowly" and introduce the buyer over a few years. But the employees became suspicious and, once the plans were announced, resented the subterfuge. And, of course, the employees were not comfortable with a new boss. He was different. The employees undermined the newbie and eventually the buyers buckled under pressure. Mr. Gainsburg wasted two years of his life.

Yes. Maybe your situation will be different. But take it from a guy who has spent years putting buyers and sellers together. The business purchase-sale transaction is one that is tough for all involved. I don't recommend that you first dip in your big toe. Wait until you're good and ready. Then take off all your clothes and dive in. □

Smart Owners Are Making These Year-End Tax Moves

It's been a pretty good year. The economy is strong and profits are healthy. Now it's time to work on reducing the tax bite. Here's how smart business owners whittle it down. They're making these moves before Dick Clark counts it down.

Set Up a Tax-Favored Retirement Plan

The most effective way to shelter income from taxes is by funding retirement accounts, and business owners now have better retirement plan options than ever before. The key is to get started. To reduce 2006 taxes, set up your new plan before year-end. Here are some popular options:

SEP: The Simplified Employee Pension (SEP) plan will allow you to contribute and deduct up to \$44,000 this year.

Solo 401 (k): May allow you to contribute and deduct up to \$49,000 this year.

Defined Benefit Pension Plan:

This plan gives you the potential to contribute and deduct more than any other. The exact amount depends on factors such as your age and income.

Note that although these plans offer powerful tax-reducing and wealth-building benefits, they do contain rules and complexities. For example, some require that you open the plan to employees. Talk to your financial advisor.

Delay Revenue and Maximize Expense

By doing either one, you'll reduce current-year book profit and thereby lower your 2006 tax bill. Here's how:

- Delay shipments until January 1. You'll reduce current-year profit (assuming the jobs are profitable).
- Delay invoicing. Many companies simply recognize revenue when the invoice is cut. Delay invoicing and reduce current-year profit.
- Record all payables before the new year. Don't allow payables to sit in the inbox unrecorded.
- Arrange for vendors to deliver any invoices "in their system" before year-end, especially large invoices.

- Accrue (record) all unrecognized obligations such as earned-but-unpaid wages and bonuses.

Purchase Equipment and Software

Most small businesses are eligible for the "Section 179" deduction. For tax years beginning in 2006, you can immediately deduct up to \$108,000 worth of business equipment — as long as it's up and running by year-end. That equipment can be new or used. Software costs qualify. Business-use vehicles also may qualify, but there are special rules for vehicles. See below for treatment of "heavy" vehicles deemed to be SUVs. Heavy vehicles NOT deemed to be SUVs are treated like other types of equipment for section 179 purposes (and that's a good thing).

Buy a Qualifying "Heavy Vehicle" SUV

To the extent that you don't use all of your \$108K section 179 allowance on equipment and software, consider buying a new SUV before year-end to take up the slack. Be sure it's rated 6,000 pounds or more.

New laws limit the Section 179 amount you can take from the purchase of an SUV to \$25,000, but you can take that PLUS regular first-year depreciation on the cost left after the first deduction.

For example, say you spend \$60,000 on a new Toyota Land Cruiser that will be used 100% in your business. As long as you make the purchase before the year's over and use the new vehicle for business before then, you generally can claim the following deductions on your business' 2006 federal return: the \$25,000 Section 179 deduction plus \$17,500 of bonus depreciation plus another \$7,000 of regular depreciation. These first-year deductions come to \$32,000. At a 35% tax rate, that's an immediate \$11,200 tax savings!

But be aware that you can claim depreciation deductions only for the business-use percentage of an assets cost. For example, if you use a vehicle 80% for business and 20% for personal purposes, you can depreciate only 80% of the cost.

The Section 179 deduction cannot exceed your business taxable income (calculated before the Section 179 write-off). For

2006, the deduction is phased out if your business acquires more than \$430,000 worth of assets that would otherwise qualify for the Section 179 write-off.

When a heavy SUV, pickup or van is owned by your corporation, it must be used more than 50% for actual corporate business activities (based on mileage) to qualify for the Section 179 write-off. When the over-50% business-use test is failed, your corporation must depreciate the vehicle using the straight-line method (in which case it will take six years to write off the cost completely).

Offset Investment Gains and Losses

Investment losses are not tax-deductible but can be used to offset taxable gains. If you have sold investments in 2006 at a loss and have other investments — such as stocks — with paper gains, consider selling and taking a gain equal to the loss. The gain thus will be shielded from taxes. The reverse also holds true. If you have realized gains during 2006, consider selling some losers to offset the gain. Be alert to short- and long-term issues. Short-term gains are taxed at ordinary income rates. You'll need short-term losses to offset short-term gains, but short-term losses can also be applied to long-term gains.

Spend Unused FSA/HSA Dollars

If there is any money left in your flexible spending account, spend it by year-end or lose it. So go get that checkup, procedure, prescription refill, new set of eyeglasses, etc.

Manage the AMT

If your income is above \$75,000 and you have significant write-offs for personal exemptions and took (or are considering taking) some sizeable capital gains, talk to your financial advisor. You could be facing a big Alternative Minimum Tax (AMT) hit. □

Don't Forget!

November 2: Last day to establish a SIMPLE IRA plan to be effective 1/1/2007.

December 31: Last day to execute documents to adopt a qualified retirement plan (other than a Safe-Harbor 401(k)) for 2006. □

2006 Tax Information

MARRIED FILING JOINT/SURVIVING SPOUSE

PERSONAL EXEMPTION	\$3,300 per person (none if filing as a dependent)
EXEMPTION PHASEOUT	Starts at \$225,750 (MFJ), \$150,500 (H of H), \$188,150 (single), \$112,875 (MFS)
MAXIMUM SALARY DEFERRALS	\$15,000 for 401(k), 501(c), 457 and 403(b) plans. (\$20,000 if over 50) \$10,000 the Simple, \$12,500 if 50 or older.
MAX. RETIREMENT PLAN CONTRIBUTIONS	IRA (Regular and Roth*): \$4,000; \$5,000 if 50 or older Defined Contribution Plans: \$44,000 Defined Benefit Plans: \$175,000 * Roth phaseout begins @ \$95K AGI for Single; \$150K for MFJ; \$0 for MFS
STANDARD MILEAGE RATES	Business: 44.5c; Charity \$0.14/ \$0.32 for Hurricane Katrina; Medical/Moving \$0.18
ITEMIZED DEDUCTION PHASEOUT	Starts at AGI over \$150,500 (MFJ, H of H, S), \$75,250 (MFS)
SOCIAL SECURITY	7.65% (6.2 % SS +1.45 % Medicare) SS levied on first \$94,200 in wages only (5,840 max. SS paid by any individual). Household help: SS tax levied only after \$1,500 paid.
KIDDIE TAX (Children under 18)	First \$850 not taxed; \$850 to \$1,700 at child's rate; over \$1,700 at parents' rate.
FOREIGN INCOME EXCLUSION	\$80,000
SECTION 179 LIMIT	\$108,000 max. aggregate, less phaseout as total 179 property placed in '06 exceeds \$430,000.
CAPITAL GAINS RATES*	Assets held 1 year or less: taxed at ordinary income rates Assets held more than 1 year: • 15% for taxpayers in brackets higher than 15%, • 5% for taxpayers in 15% or lower tax bracket
*Non-collectables ("collectables" are taxed at 28%)	
CHILD TAX CREDIT	\$1,000 for each child under age 17. Phaseout begins at \$75K AGI for Single; \$110K for MFJ and \$55K for MFS.
AMT RATES	26% of income up to \$175,000 (\$87,500 (MFS)); 28% thereafter
**AMT EXEMPTION	\$42,500 (S, H of H); \$62,550 (MFJ); \$31,275 (MFS). Phaseout begins at \$150K; \$112.5K and \$75K, respectively.
DIVIDEND INCOME	5% for 10% and 15% income tax rate payers; 15% for taxpayers in brackets higher than 15%
ANNUAL GIFT EXCLUSION	\$12,000
ESTATE TAX EXCLUSION	\$2,000,000
RETIREMENT PLAN WITHDRAWALS MANDATORY	Age 70 1/2
HOME SALE EXCLUSION	\$250,000(S), \$ 500,000 (MFJ)

** Per IRS website, the AMT exemption amount has decreased to \$33,750 (\$45,000 if married filing jointly or qualifying widow(er); \$22,500 if married filing separately). However, since two 2006 tax law changes books and guides have been released and websites are not always kept up to date will use the tax law changes posted in paper form.

If Taxable Income Is:	The Tax Is:
Not over \$15,100	10% of taxable income
Over \$15,100 but not over \$61,300	\$1,510 plus 15% of the amount over \$15,100
Over \$61,300 but not over \$123,750	\$8,440 plus 25% of the amount over \$61,300
Over \$123,750 but not over \$188,450	\$24,040 plus 28% of the amount over \$123,750
Over \$188,450 but not over \$ 336,550	\$42,170 plus 33% of the amount over \$188,450
Over \$336,550	\$91,043 plus 35% of the amount over \$336,550

* Standard deduction \$ 10,300 (+\$1,000 for each spouse age 65+or blind, \$2,000 for each spouse age 65+and blind.)
* Standard deduction (SD) for the dependents is the greater of \$850 or earned income plus \$300 (not to exceed the SD for dependent's filing status).

HEAD OF HOUSEHOLD

If Taxable Income Is:	The Tax Is:
Not over \$10,750	10% of taxable income
Over \$10,750 but not over \$41,050	\$1,075 plus 15% of the amount over \$10,750
Over \$41,050 but not over \$106,000	\$5,620 plus 25% of the amount over \$41,050
Over \$106,000 but not over \$171,650	\$21,857.50 plus 28% of the amount over \$106,000
Over \$171,650 but not over \$ 336,550	\$40,239.50 plus 33% of the amount over \$171,650
Over \$336,550	\$94,656.50 plus 35% of the amount over \$336,550

* Standard deduction \$ 7,550 (+\$1,250 for each spouse age 65+or blind, \$2,500 for each spouse age 65+ and blind.)
* Standard deduction (SD) for the dependents is the greater of \$850 or earned income plus \$300 (not to exceed the SD for dependent's filing status).

SINGLE

If Taxable Income Is:	The Tax Is:
Not over \$7,550	10% of taxable income
Over \$7,550 but not over \$30,650	\$755 plus 15% of the amount over \$7,550
Over \$30,650 but not over \$74,200	\$4,220 plus 25% of the amount over \$30,650
Over \$74,200 but not over \$154,800	\$15,107.50 plus 28% of the amount over \$74,200
Over \$154,800 but not over \$336,550	\$37,675.50 plus 33% of the amount over \$154,800
Over \$336,550	\$97,653 plus 35% of the amount over \$336,550

* Standard deduction \$ 5,150 (+\$1,250 for each spouse age 65+or blind, \$2,500 for each spouse age 65+ and blind.)
* Standard deduction (SD) for the dependents is the greater of \$850 or earned income plus \$300 (not to exceed the SD for dependent's filing status).

MARRIED FILING SEPARATE RETURNS

If Taxable Income Is:	The Tax Is:
Not over \$7,550	10% of taxable income
Over \$7,550 but not over \$30,650	\$755 plus 15% of the amount over \$7,550
Over \$30,650 but not over \$61,850	\$4,220 plus 25% of the amount over \$30,650
Over \$61,850 but not over \$94,225	\$12,020 plus 28% of the amount over \$61,850
Over \$94,225 but not over \$168,275	\$21,085 plus 33% of the amount over \$94,225
Over \$168,275	\$45,521 plus 35% of the amount over \$168,275

* Standard deduction \$ 5,150 (+ \$1,000 for each spouse age 65+or blind, \$2,000 for each spouse age 65+ and blind.)
* Standard deduction (SD) for the dependents is the greater of \$850 or earned income plus \$300 (not to exceed the SD for dependent's filing status).

CORPORATE TAX RATES

If Taxable Income Is:	The Tax Is:
\$0 to \$50,000	15%
Over \$50,000 but not over \$75,000	\$7,500 plus 25% of excess over \$50,000
Over 75,000 but not over \$100,000	\$13,750 plus 34% of amount over \$75,000
Over \$100,000 but not over \$335,000	\$22,250 plus 39% of the amount over \$100,000
Over \$335,000 but not over \$10,000,000	\$113,900 plus 34% of the amount over \$335,000

ESTATES AND TRUSTS

If Taxable Income Is:	The Tax Is:
Not over \$2,050	15% of taxable income
Over \$2,050 but not over \$4,850	\$307.50 plus 25% of the amount over \$2,050
Over \$4,850 but not over \$7,400	\$1,007.50 plus 28% of the amount over \$4,850
Over \$7,400 but not over \$10,050	\$1,721.50 plus 33% of the amount over \$7,400
Over \$10,050	\$2,596 plus 35% of the amount over \$10,050

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