THE RAINIER GROUP, INC.

Family Ownership Transition

CASE STUDY

Family Ownership Transition Case Study

In this study the founder of a successful private company wants to move stock to his children and grandchildren. The founder's primary concerns include the company's long-term success and viability, his personal financial security, family harmony, and tax minimization.

Current Situation

Family Members

The founder and his spouse are in their early 60's. They have three grown children ranging from 30 to 40 years old, one of whom is active in the business in an executive position. The spouse of another is a middle-manager and neither the third child nor his future spouse have an active role in the business. There are five grandchildren, the oldest of whom is 13 years old, three in one family and two in another.

Net Worth

The founder and his spouse have a net worth of approximately $50 million, the business and commercial real estate comprising about 75% of that value. The rest of their net worth is fairly evenly split between traditional investments (stocks, bonds, mutual funds, retirement accounts) and personal use property (homes being the largest part of that).

Each of the children's net worth is approximately $10 million, the vast majority of which is non-voting company stock they received equally from their parents many years ago.

Estate Plan

The founder and his spouse have wills & trusts designed to fully use all available estate tax exemptions and credits. They have given company stock to their children using some of their lifetime gift exemption, and executed a shareholders agreement controlling stock dispositions and keeping stock in the family. The children all own the same number of shares and the founder's and his spouse's wills pass all company stock to the three children equally.

Current Company Ownership

Voting Shares

Owner	Number of Shares	Percentage
Founder	20	2%

Non-Voting Shares

Owner	Number of Shares	Percentage
Founder	730	73%
Children's Irrevocable Trusts	250	25%

Core Objectives

The founder's stated objectives include:

Personal Objectives

- Guarantee his and his spouses long term personal financial security based on your desired standard of living.
- Coordinate personal financial planning with goals for the lifetime transfer of business interests and estate distribution.
- Promote family harmony and prevent business interaction from tainting personal relationships.
- Pass equal values to children.
- Have the child currently filling an executive role succeed the founder at the head of the company.
- Minimize the family's current and future estate tax liability.
- Have a well understood, coordinated, and effective plan in place to deal with the transition from Generation 1 to Generation 2.

Business Objectives

- Assure the business remains strong and continues to grow.
- Develop a plan to attract, retain and reward talented key employees.
- Maintain the corporate distributions to support family (self and children's) needs.
- Don't allow family priorities to sink the business and rob the family of the value the business represents to all of them.

Business Transition Candidacy Evaluation

When the objective is to retain a closely held business within a family, Rainier Group's Business Transition Services process is to first determine if the primary business retention objective is obtainable. In other words, does this family and this business have the makings of a successful family transition or a disastrous one. We're looking for a family transition where ownership and control shifts from one generation to the next with the business continually owned and operated by family members. In doing so, there are three main areas we focus our attention:

- the founder,
- the next generation and
- the business itself.

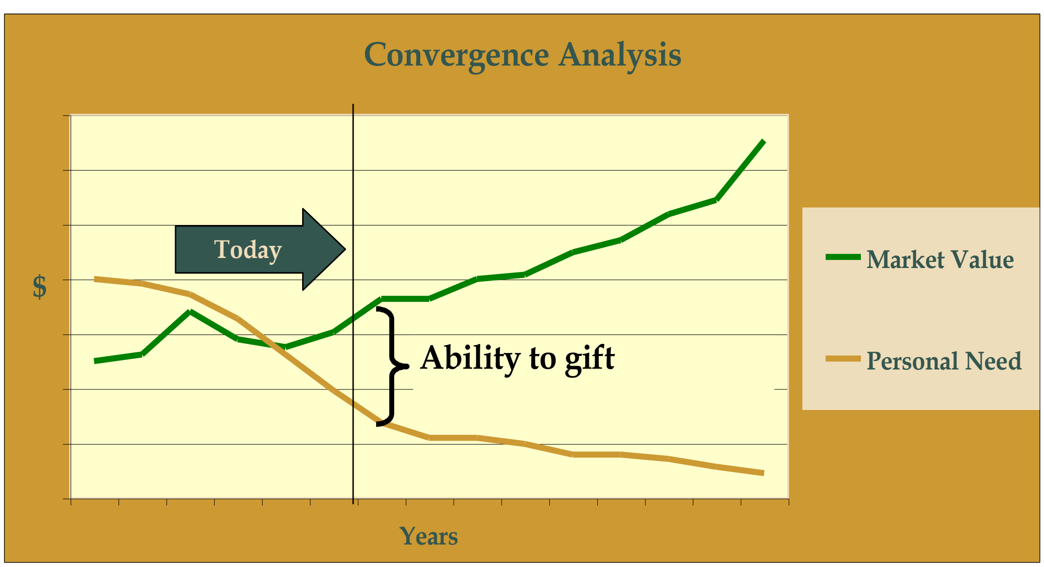
If the primary needs and objectives of any of these constituencies are unlikely to be met then a family transition is probably not viable at this time. Alternatives would include making changes and trying the family transition under improved circumstances, or switching to one of several non-family transitions.

Founder Focus

The founder needs to be certain that the objectives laid out above are achievable through the transition. If a family transition is likely to fail to meet any of those objectives it may be best to explore something else (such as a sale to key management or to a third party).

Financial and Other Models

With appropriate variables quantified, our modeling process can help determine where the founder's financial security and business values converge. Experience shows this kind of understanding is paramount to the founder's willingness to take "REAL" action towards transitioning their business.



The models backing up graphical summaries are as detailed as they need to be to fairly represent the client's situation. Here's an example of the main sections of a personal model.

THE RAINIER GROUP, INC.

Annual Income

	Growth Rate	57 56 2009	58 57 2010	59 58 2011	60 59 2012	61 60 2013
Salary & Bonus	3.00%	450,000	460,000	470,000	480,000	490,000
Distributions		2,180,000	2,360,000	3,140,000	3,670,000	3,680,000
Company N/R		250,000	250,000	250,000	250,000	2,650,000
Partner N/R		110,000	0	0	0	0
Family Member N/R		60,000	60,000	60,000	1,560,000	0
Family Member N/R		0	0	0	0	0
Sale N/R		100,000	100,000	100,000	100,000	1,080,000
Lease		340,000	340,000	370,000	370,000	510,000
Investment Income		150,000	200,000	260,000	340,000	490,000
Withdrawals From Investment Pool		0	0	0	0	0
Total Annual Income Cash Flow:		**3,640,000**	**3,770,000**	**4,650,000**	**6,770,000**	**8,900,000**

Annual Expenses

	Growth Rate	2009	2010	2011	2012	2013
Standard of Living Expenses		1,040,000	1,080,000	1,080,000	1,110,000	1,150,000
Retirement Plan Contributions		21,000	21,500	22,500	23,000	24,000
Personal Insurance Premium		20,000	20,000	20,000	20,000	20,000
Gifts - Annually to Family		49,440	50,923	52,451	54,024	55,645
Charitable Cash Contributions	3.00%	700,000	200,000	200,000	206,000	212,180
Additions to Accounts		80,000	80,000	80,000	90,000	90,000
Taxes						
Social Security/Medicare		12,938	13,276	13,619	13,968	14,323
Income Tax		244,990	289,434	367,636	389,762	1,866,419
State Income Tax		69,829	75,493	84,023	91,916	401,125
Total Annual Expenses:		**2,238,197**	**1,830,626**	**1,920,229**	**1,998,670**	**3,833,692**
Discretionary Cash:		**1,401,803**	**1,939,374**	**2,729,771**	**4,771,330**	**5,066,308**

Annual Asset Values

	Growth Rate	2009	2010	2011	2012	2013
Cash and Marketable Securities						
Investment Accounts	7.60%	4,305,833	6,457,469	9,505,571	14,745,492	20,538,701
Checking and Savings Account	4.50%	1,795,404	1,876,197	1,960,626	2,048,854	2,141,053
Other Stock/Investments	9.50%	181,517	197,267	214,382	232,983	253,198
Qualified Retirement Plans						
Qualified Plans	9.20%	1,642,511	1,815,122	2,004,613	2,212,037	2,439,545
Qualified Plans	9.20%	34,267	37,420	40,862	44,621	48,727
Insurance Cash Values		984,636	1,033,868	1,085,562	1,139,840	1,196,832
Notes Receivable						
Company N/R		2,787,624	2,698,850	2,604,601	2,504,538	0
Partner N/R		0	0	0	0	0
Family Member N/R		1,500,000	1,500,000	1,500,000	0	0
Family Member N/R		120,000	120,000	120,000	120,000	120,000
Sale N/R		1,133,949	1,097,837	1,059,499	1,018,795	0
Real Estate / Small Businesses						
Company Voting Stock		22,389,842	24,266,076	24,896,765	25,578,899	26,083,325
Private Investment		8,752	9,015	9,285	9,564	9,851
Real Property		212,180	218,545	225,102	231,855	238,810
Company Facility		5,715,048	6,085,105	6,471,636	6,875,459	7,164,314
Private Investment		(510,000)	(510,000)	(510,000)	(510,000)	(510,000)
Personal Residences						
Primary	4.00%	2,163,200	2,249,728	2,339,717	2,433,306	2,530,638
Cabin	4.00%	757,120	787,405	818,901	851,657	885,723
Winter	4.00%	5,948,800	6,186,752	6,434,222	6,691,591	6,959,255
Personal Property						
Autos and Personal Property - Barb	1.00%	450,000	454,500	459,045	463,635	468,272
Net Worth:		**51,620,684**	**56,581,156**	**61,240,389**	**66,693,127**	**70,568,243**

With baseline models established several of the founder's objectives can be illustrated and options tested using financial models; whether the founder can maintain the desired level of living, tax minimization, equalizing values received by the family among them. Various examples of how ownership transfers (via gift, sale or some combination) and when can be illustrated and compared using in a financial model. Combining this with the founders other income, expenses, and assets allows us to compare various techniques under a variety of circumstances.

Wealth Security Probability Analysis

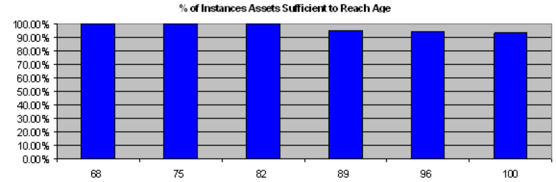
General Assumptions		
Current Age:	61	
Allocation Through Age	75	100
Number of Iterations:	100	
Personal Investment Assumptions:		
Average Return:	9.04%	5.60%
Standard Deviation:	11.13%	3.86%
% of Return that is Interest:	85.73%	70.85%
% of Interest that is Taxable:	42.87%	42.84%
% of Return that is Dividend:	0.00%	1.47%
Retirement Investment Assumptions:		
Average Return:	9.04%	9.04%
Standard Deviation:	11.13%	11.13%
Correlation to Personal Allocation:	100.00%	0.00%

Returns and risks are entered for the years they are applicable.

Investment Assets Sufficient to Reach Ages

Age:	68	75	82	89	96	100
% Iterations:	100.00%	100.00%	100.00%	95.00%	94.00%	93.00%

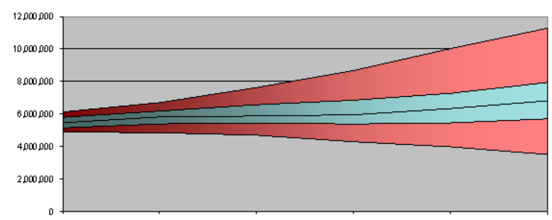
% of Instances Assets Sufficient to Reach Age



A histogram is created showing how often funds are sufficient to reach selected ages. In this case, the risk/return of the chosen allocation allows the client to reach age 100 with funds remaining 93% of the time.

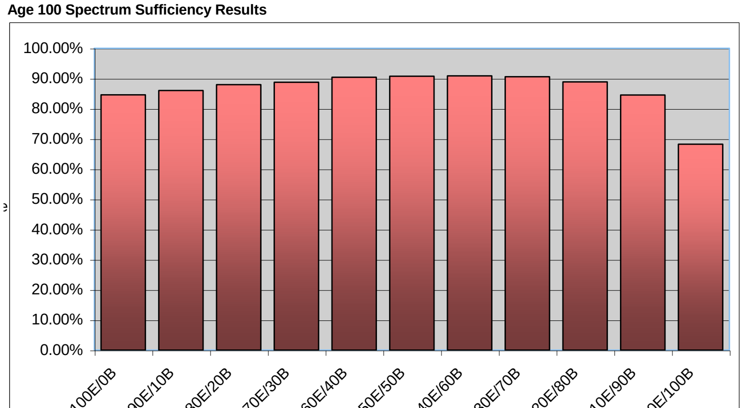
Accumulation Distribution

Age:	68	75	82	89	96	100
95th Percentile	6,129,261	6,705,309	7,633,227	8,681,351	10,029,272	11,282,889
75th Percentile	5,800,847	6,184,580	6,569,856	6,847,200	7,275,749	7,947,125
50th Percentile	5,464,385	5,819,941	5,879,906	5,957,500	6,335,470	6,810,742
25th Percentile	5,146,238	5,397,343	5,446,651	5,390,236	5,465,570	5,699,824
5th Percentile	4,889,004	4,847,849	4,697,273	4,294,215	3,986,547	3,509,913



The data also drives graphics that show the amount of funds in the accounts at certain ages. The chart displays the percentile distribution for all iterations at each age.

Age 100 Spectrum Sufficiency Results



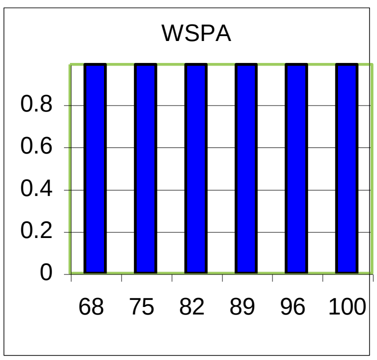
The chart above is a projection based on assumptions concerning portfolio return and risk, and on cash flow, as described in the cash flow model assumptions document. The results do not represent a guarantee of portfolio performance or asset sufficiency. Details available at www.rginv.com.

Portfolio optimization example.

Simulations

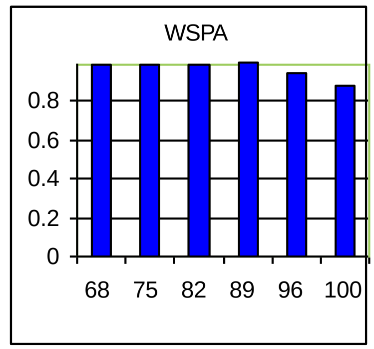
Every option illustrated in financial models is tested by simulation. By example, one approach simulates the financial risks inherent in an investment portfolio and applies those risks to the client's financial model.

Given a prospective portfolio's average return and standard deviation (a measure of risk), the model creates several hundred sets of random returns that conform to this mean and standard deviation. Each set of returns represents a possible future return pattern for the portfolio. The model then applies each set of returns to the client's retirement and investment pool and records when and if the retirement and investment pools drop to zero, given the assumptions of the specific scenario. The results of such a simulation can be represented in chart's like these.



At left a scenario with a very high and persistent likelihood of having positive portfolio balances at various ages in the future.

At right: A less persistent pattern.



Private company founders almost always have significant wealth and income sources in addition to investment portfolios. The private company itself, commercial real estate, investments in other private companies and restricted ownership investments, and notes receivable are common and none of these lend themselves to the same simulation variables as publicly traded investments. However, simulations with asset appropriate variables are used to provide the best possible data for decision making.

Results

The modeling results for the founder attempt to illustrate whether the founder is in a financial position to realistically consider a family transfer. Can the founder achieve

- Financial Independence
- Retirement when desired
- Tax Mitigation
- Charitable and community involvement

And any other quantifiable objectives are all considered.

In this case we determined the founder was way beyond the convergence point and could meet all his financial objectives using only a fraction of his wealth.

When, like this case, the financial side appears to work the founder's objectives for the effective transfer of control and the next generation's roles and responsibilities must be met by the ownership transition techniques being considered (and we found ways to accomplish those as we'll soon explain).

Generation 2 Focus

The receiving generation usually requires a similar but less complex financial analysis, but for any family transition to work the receiving generation's cash needs must be met. On the personal side, what has the company (or parents) historically provided (distributions), and is the continuation of the distributions consistent with what the children are looking for as owners?

The same types of financial models that worked for G1 work efficiently for G2.

Beyond the numbers, members of this generation typically have varying roles and involvement currently and an important question is where do these people see themselves going in relation to the business? If the founder transfers stock does he also retire? Who fills the lead role? Who shares it? Who has been looking for a chance to leave the company but hasn't because they don't want to disappoint? Who thinks the business is being run right? To much or too little risk? Who trusts their siblings in the business? Who doesn't? How will the company's banking relationship be effected by this potential change? None of this has been terribly important before, but it will become critically important when ownership shifts. There must be significant alignment on business direction, roles, and risk for the next generation to be successful co-owners over the long-term future. If that alignment doesn't exist already it must either be created or the transition must contemplate additional levels of ownership consolidation and role shifting at the G2 level.

Typically some members of this generation have management roles, whether those are executive roles responsible for day-to-day operations or board roles responsible for strategy and direction. Others may not, or may be asked to serve but have little capacity for it at this time. The new owners must be confident that management, trust, and communication issues can be addressed as they shift during and after ownership changes hands.

Family Stewardship and Mentoring

Many parents are concerned about their children/grandchildren's ability to be capable financial or business managers and/or contributing members of society. Families who have accumulated significant net worth usually become interested in adequately preparing their children to manage and eventually become good stewards of the family assets. We recognize the importance of preparing the heirs and have incorporated these considerations into our planning process. The following lists several key aspects of this process:

Creating Perspective and Clarifying Purpose

The discussion may include wealth mentoring opportunities and management training, assets key characteristics, consistency with family's values and objectives, a common long-term vision for the assets around a shared purpose, and potentially integrating the wealth management with a philanthropic structure.

Understanding Timing and Results

The discussion with your children/grandchildren may include lifetime verses testamentary transfers; lifetime gives the ability to see "it" happen, being able to influence the process, income tax savings today, estate tax reduction; testamentary simply offers estate tax avoidance.

Defining Requirements and Roles

This process includes the identification of the necessary skills and available resources to prepare your children to competently manage the estate assets. Considering your children's desires and skills, create definition around your children's respective roles in the future management and ownership of the properties.

Governance and Leadership

Outside the assumption or delegation of operating responsibilities, the financial and strategic decisions should be centralized with a key decision maker or a group of experienced managers. This governance and/or leadership foundation will help provide for future "business" continuity.

Policies and Procedures

Specific policies may be appropriate considering decisions regarding distribution of profits, reinvestment of capital, operating requirements, heir's involvement, expansion opportunities and the like.

Results

In this case the sibling's situation was numerically simple and relationally complex. The active child (the executive) clearly saw himself as his father's successor without peer while his sister saw her husband (the middle manager) as the glue that kept her brother from destroying the company's management team. The other child wasn't concerned about the business on any level other than continued significant financial support.

Business Focus

The last area to pre-test is the business. As with the family members personal situations, we approach this with a combination of financial and non-financial modeling.

Future Growth/Competitiveness of the company

If the goal is keeping the business in the family the first concern is whether this particular company is a good investment. What are the company's capital needs and does it appear to have access to that capital? What is the direction of the industry? Where does this company compare with others within its industry? How is this company managing cash flow, the life-blood of any business? Said simply, is this company a good long-term investment?

Cash flow required to transition ownership

In addition, the company needs the financial capacity to also fund the ownership transition. Unlike opening a new location, adding staff, or investing in updated machinery, ownership transitions create non-performing expenditures that the company must support in addition to remaining competitive. These expenditures include the following. Financial models test all these issues and more.

- G1 liquidity
- Transition cost
- G2 needs (inactive owner distribution, etc)

THE RAINIER GROUP, INC.			Actual	Projected		
	2006	2007	2008	2009	2010	2011
Income Statement						
Operating Income						
Revenues	153,193,815	160,853,506	168,896,181	177,340,000	186,210,000	195,520,000
Cost of Goods Sold	130,214,743	136,725,480	143,561,754	150,739,000	158,278,500	166,192,000
Gross Profit	22,979,072	24,128,026	25,334,427	26,601,000	27,931,500	29,328,000
Gross Margin	14.78%	14.78%	14.78%	14.78%	14.78%	14.78%
Expenses						
Depreciation	27,798	27,615	27,653	27,889	28,305	28,885
Advertising and Promotions	38,734	40,671	42,704	44,839	47,082	49,436
General & Administration	492,090	516,695	542,530	569,653	598,145	628,051
Salaries and Wages (non-Officer)	4,619,429	4,850,400	5,092,920	5,347,536	5,615,004	5,895,739
Officers Salaries	225,000	225,000	225,000	225,000	225,000	225,000
Employee Benefits	439,762	461,750	484,838	509,077	534,539	561,265
Officer Benefits	46,242	48,554	50,982	53,531	56,208	59,018
Retirement Plan Contributions	1,775,929	1,864,726	1,957,962	2,055,849	2,158,676	2,266,604
Rent	260,429	273,451	287,124	301,478	316,557	332,384
Equipment Maintenance and Repairs	83,627	87,809	92,199	96,809	101,651	106,733
Utilities	211,668	222,251	233,364	245,031	257,286	270,150
Travel	213,709	224,395	235,615	247,394	259,768	272,755
Taxes - Other than Income Taxes	225,657	236,939	248,786	261,224	274,290	288,004
Payroll Taxes	248,988	260,859	273,324	286,410	300,157	314,586
Total Expenses	8,909,063	9,341,116	9,795,000	10,271,719	10,772,668	11,298,609
Income from Operations.	14,070,009	14,786,910	15,539,427	16,329,281	17,158,832	18,029,391
Investment Income	275,153	288,911	303,356	318,522	334,454	351,175
Interest Expense	0	0	0	0	0	0
Gains from Sale of Equip.	0	0	0	0	0	0
Amortization	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Total Other Income	275,153	288,911	303,356	318,522	334,454	351,175
Net Income	**14,345,162**	**15,075,821**	**15,842,783**	**16,647,803**	**17,493,286**	**18,380,566**
Net Margin	9.36%	9.37%	9.38%	9.39%	9.39%	9.40%

Cash Flow	2006	2007	2008 Actual	2009 Projected	2010	2011
Cash Flows From Operating Activities						
Net Income	14,345,162	15,075,821	15,842,783	16,647,803	17,493,286	18,380,566
Depreciation	27,798	27,615	27,653	27,889	28,305	28,885
Amortization	0	0	0	0	0	0
Changes in Operating Assets						
Reduction, (Increase)						
Accounts Receivable	(176,083)	(184,887)	(194,131)	(203,814)	(214,101)	(224,721)
Other Current Assets	(17,109)	(17,964)	(18,862)	(19,803)	(20,803)	(21,835)
Changes in Operating Liabilities						
Increase, (Reduction)						
Accounts Payable	371,996	390,596	410,126	430,581	452,314	474,751
Retirement Contributions Payable	25,024	26,275	27,589	28,965	30,427	31,936
Misc. Payable	0	0	0	0	0	0
Total:	14,576,788	15,317,456	16,095,157	16,911,621	17,769,428	18,669,582
CF from Investing & Financing						
Purchase of PP&E	(80,074)	(84,078)	(88,282)	(92,696)	(97,332)	(102,198)
(Dividends) Capital Contrib.	(11,476,129)	(12,060,657)	(12,674,227)	(13,318,242)	(13,994,629)	(14,704,453)
Total:	(11,556,204)	(12,144,735)	(12,762,509)	(13,410,938)	(14,091,961)	(14,806,651)
Total Change in Cash:	3,020,585	3,172,721	3,332,648	3,500,683	3,677,467	3,862,931

Balance Sheet	2006	2007	2008 Actual	2009 Projected	2010	2011
Assets						
Cash & Investments	36,214,620	39,387,341	42,719,990	46,220,673	49,898,140	53,761,071
Accounts Receivable	3,697,736	3,882,622	4,076,753	4,280,567	4,494,668	4,719,389
Property Plant and Equipment						
Assets	802,135	826,870	854,180	884,004	916,304	951,062
Accumulated Depreciation	(265,803)	(234,075)	(200,756)	(165,774)	(129,047)	(90,491)
Net PP&E	536,332	592,795	653,424	718,230	787,257	860,571
Stockholder Loan	0	0	0	0	0	0
Other Current Assets	359,284	377,248	396,110	415,913	436,716	458,551
Total Assets	40,807,972	44,240,007	47,846,277	51,635,384	55,616,782	59,799,582
Liabilities						
Accounts Payable	7,811,917	8,202,513	8,612,638	9,043,220	9,495,534	9,970,285
Debt	0	0	0	0	0	0
Non-Qualified Plan	0	0	0	0	0	0
Retirement Contributions Payable	551,092	577,367	604,955	633,920	664,347	696,282
Misc. Payable	1,765	1,765	1,765	1,765	1,765	1,765
Total Liabilities	8,364,774	8,781,645	9,219,359	9,678,905	10,161,646	10,668,333
Misc. Capital Adjustments	0	0	0	0	0	0
Stockholder's Equity	32,443,197	35,458,361	38,626,918	41,956,478	45,455,135	49,131,249
Total Liabilities and Equity	40,807,971	44,240,006	47,846,277	51,635,384	55,616,781	59,799,582

Results

The company is quite profitable and provides strong cash flow. This combined with the founder's comparatively modest personal needs makes this company a strong candidate based on being able to provide the founder with money and pay ownership transition costs.

As far as being a good long-term investment for the next generation and the businesses access to capital the business is acceptably well positioned. This company is run debt-free but also has few hard assets against which to borrow. Its access to capital depends on unsecured borrowing, personal guarantees, or outside investors. It is significantly profitable and operates in a market niche that it dominates, making it fairly attractive to venture

capital if it can prove an aggressive business model (which management believes it can). Given a relatively short period of time the next generation should be able to build significant net worth to make personal guarantees effective; and in this case clearly one of the keys to a long-term successful family transfer will be focusing the next generation on building and retaining capital rather than simply increasing their lifestyle. There is a natural alignment for the two children who are involved in the business and a natural misalignment for the uninvolved child.

Management succession

When the founder is considering ownership transition while still integral to the company's daily and strategic functions the company's management team requires evaluation. Does the business have the operational and strategic horsepower to continue successfully with out the founder, and if not, what changes are needed? If those changes seem impossible we may need to explore another transition direction.

Results

In this case, the founder has already stepped away from daily involvement and the company is led by the involved child and other executive-level employees. However the founder has not begun shifting any responsibility for strategy. This company is ahead of most in this area and the fact that the company's executive team has a track record of executing strategy well leaves only the strategy issue unresolved as far as a successful long-term transition is concerned.

Viability decision

All this effort is focused on helping the client make a good viability decision. A reasonable question is, "Do the needs, capabilities, objectives and resources of the founder, the family, and the business converge? " If the answer is "Yes" then we can explore ways to accomplish the transition and we have built the perfect platform from which to evaluate many important items such as:

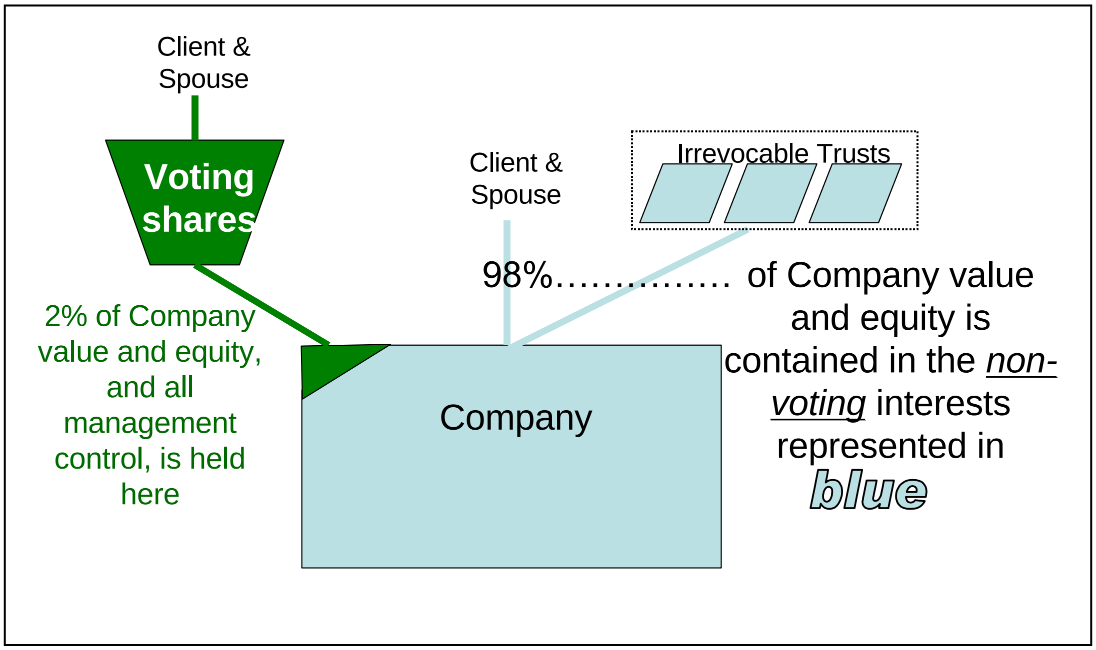
- Deal structure
- Control
- Gifting, sale, pricing & terms
- Capital brought
- Staged or single transaction?

Business Ownership Transition Structure

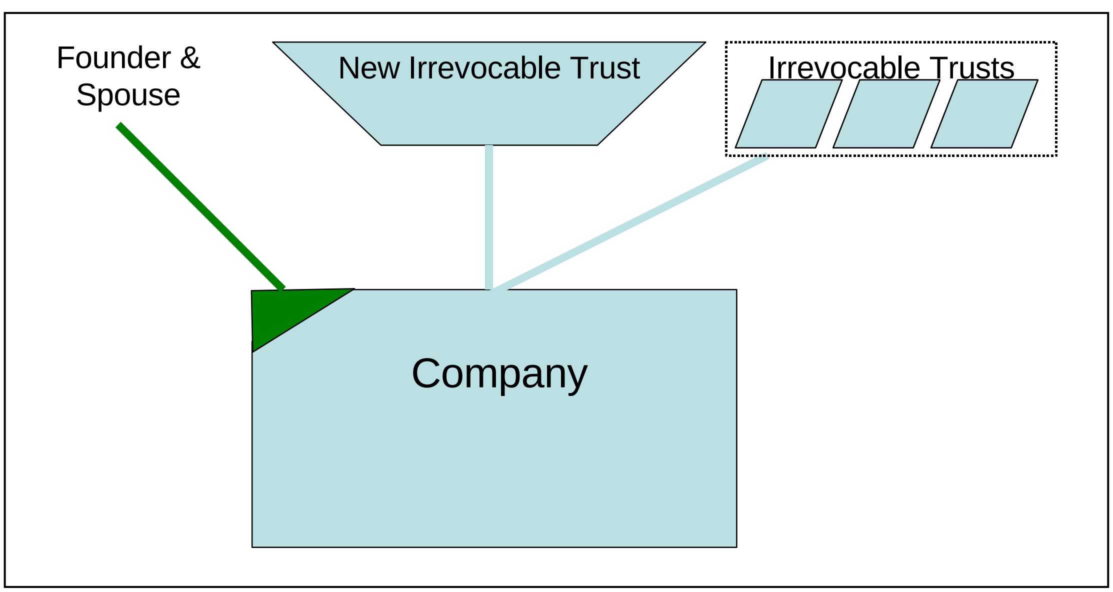
Personal modeling showed the client needed a small portion of his net worth for his own use and could therefore consider giving much of his wealth away. His primary object was family but he was also committed to include some meaningful charitable giving. With the idea that the overall magnitude could be significant we explored several ways to do it; first conceptually, and then analytically compared several variations of the clients top two choices.

Business

The company had voting and non-voting shares. The founder held all the voting shares and most of the non-voting shares. The rest of the company's stock was already held in trusts created before any of the children had a meaningful role in the business. Each child's trust was the same in every way.

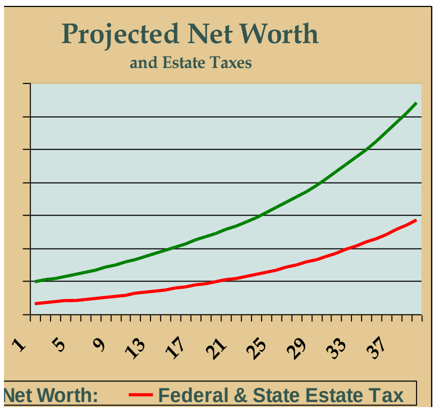


The rest of the non-voting stock was sold to a new trust. This trust was not just for the children, but for children and grandchildren. The founder retained the voting shares.



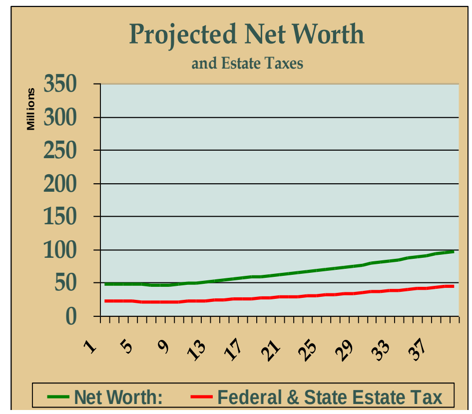
The New Irrevocable Trust purchased the remaining non-voting shares from the founder. This purchase was tax-free under the grantor trust rules and was accomplished quickly by making a short-term business decision to use more debt in the company and use the increased cash flow to push more distributions out. These greater distributions allowed the founder to build his investment accounts to supplement his retirement income.

This approach reduced projected net worth growth and estate taxes by a wide margin.



Before

After



Other Assets

Each of the founder's major assets, and a few combinations of assets, were also put through ownership transfer scenarios. The founder's primary focus was the business and it's transition, but secondary objectives included charitable giving and estate tax reduction. Some of the results were combined with governance to find the right solution.

Post-Transition Company Ownership

Voting Shares

Owner	Number of Shares	Percentage
Founder	20	2%

Non-Voting Shares

Owner	Number of Shares	Percentage
Founder	0	0%
Children's Irrevocable Trusts	980	98%

Governance

With operational management responsibility previously shifted to the next generation and key employees this company's governance challenges were in two areas: company strategy/long-term planning and addressing inactive shareholder issues. The founder's strong preference was to combine these to try to achieve the "family perspective" he felt had developed during his tenure. He made business decisions in light of his concerns for all his family regardless of their participation in the business. He also recognized that for this to work his children needed a broader understanding; the active son needed to expand his view beyond himself and the company to include family stewardship. The daughters whose husband was active needed first hand information about the business and how things operate rather than just what she heard from her husband. And both she and the inactive child needed a better understanding of how the business decisions affect outcomes.

In short, training was needed and the board was adjusted to provide that training.

Family Advisory Board Created and Corporate Board Formalized

In a two-stage process, a family advisory board was created to provide the business training two of the children lacked and stewardship training for the other. At this family board the three children had a seat along with one parent and one outsider. This board's primary purpose is to advise the company regarding the use of profits to do the following:

- How quickly to pay the company's variable obligations (such as debt, major facility repairs/improvements etc.)
- Distribute money to owners for income taxes
- Retain sufficient funds for operations and capital expenditures

The board will also provide input to the company regarding:

- Whether it will donate funds to charity, including a family foundation the founder referenced creating in his will but had, as yet, not formed.
- Invest in growth, expansion, or acquisitions.
- Distribute monies to owners.

The second stage was to organize a functioning corporate board focused on corporate strategy. Initial board members included the founder, company CEO, and three outsiders (neither employees nor family members). Over time this board will shift to include three members elected by each child (or the trustee of his or her respective trusts, the CEO (who will likely be the son), and one additional member elected by the board (excluding the CEO).

Future Adjustments

As the boards begin functioning and family members receive training in areas they currently lack the founder recognizes this structure may need to change. He is committed to periodic evaluations and adjustments. The hope is that the family board can be eliminated and the three children can serve together with two outsiders they select and manage everything; company strategy, major funding, acquisition, and distribution decisions, and charitable participation.

Align Transition and Contingency Plans

The company's voting shares will pass to the active son as trustee for a trust benefiting all the children.

A shareholders agreement is implemented to restrict share transfers (the original trusts formed several years ago for the children will soon terminate and the children will own those shares personally), and provide pricing and terms for transactions driven by any shareholders desire to sell stock or need for estate liquidity.

A separate trust the founder formed several years ago and funded with life insurance intended to pay estate taxes was reviewed and its distribution provisions modified to be consistent with the new trust into which stock has now been sold.

The family foundation formerly created in the will was formally established and funded with donations from the founder and two of the children. The founder's will now simply makes a bequest to the foundation of all value in excess of $30 million, effectively capping the founder's estate tax liability.

The will directs the executor to divide the children's inheritance equally, but to allocate any business related assets (such as real estate leased to the company) to those children who are active in the business at the time of the founder's death.

Benefits and Summary

1. The founder has a high degree of confident regarding his and his spouse's financial future.
2. Company ownership moves to the next generation with no taxes and a short-term pull on the company's financial resources.
3. A forum exists for training and growing the family in business and stewardship matters.
4. Charitable intent is being realized.
5. Estate taxes are reduced and growth in those taxes is nearly eliminated.
6. Flexibility to make adjustments to the plan is incorporated as the business and personal situation changes over time.