

SUCCESSION PLANNING FOR THE BUSINESS OWNER

Do you think about retirement? What will you do with your business? Is a family member or a key employee interested in assuming ownership of the business? If you are thinking about the next stage of your life, you've already started your succession planning. It's an informal plan, but it's a starting point.

A "formal" succession plan is a strategic document that sets out a process and schedule for a business owner's eventual withdrawal from the business. It includes the legal and other supporting documents to put this plan into effect.

There is no cookie-cutter solution to the succession planning process. Every situation is unique. Whether you are near retirement or planning to retire years from now, the more time you have for planning, the more options you can consider and the more likely you will achieve your goals.

The Issues

Throughout the planning process, you will have to deal with many "technical" issues and "soft" issues.

The technical issues involve legal, accounting and financing matters such as share ownership, the transfer of ownership, tax planning, the financing of the transition and the funding of your retirement as well as the "tools" — the legal and planning documents — that ensure your plan will meet your objectives.

The "soft" issues involve interpersonal relationships within the family and with other stakeholders and the need to maintain open and transparent communications. In succession planning, communication can spell the difference between success and failure.

The Two Most Common Options

1) *Transferring Ownership through a Management Buy-out to Family Members or Employee(s)*

Family members can be good choices for successors, but only if they have the aptitude, commitment and proven business skills to manage the business. Some business owners select a single successor, while others may select a sibling or family team to serve as co-managers. Great care should be taken if you are considering a team approach. Roles and responsibilities should be clearly outlined to avoid any potential conflicts.

You may want the business to stay in the family, but after discussions with family members and thoroughly assessing this option, decide it is not the best decision for all involved.

One alternate option to transferring the business to a family member is to offer key management an opportunity to purchase all or part of the business. There are many methods of structuring the financing of a management buy-out (commonly referred to as an "MBO"), including a financed purchase or a buy-out over time. Initially, however, you will need to consider whether there are employees in the business who are willing and prepared to take the risk of ownership and whether the business itself is a good candidate for this succession option.

The MBO can be advantageous in ensuring continuity of personnel and the business itself. Like many proud owners of private businesses, you may not want to risk losing your company's identity or seeing loyal employees transferred or terminated after a sale. A MBO is more likely to achieve your wish for continuity than a sale to an outside party.

2) *Selling the Business to an Outside Purchaser*

You and your family may decide that the best strategy for all involved is to sell the business outright to an outside party. A sale can be structured in several ways. It may involve an active role for you in running the business for a period of time or maintaining a minority ownership interest. Or you may decide to take advantage of the proceeds of the sale and fully disassociate yourself from the business.

Selling a business is not like selling other assets you might own. It requires considerable time to get a business ready for sale. In addition, your family members may have mixed emotions about selling. You will need time to resolve any issues before you begin negotiations with a purchaser.

Once you have made the decision to sell, your short-term plan will include determining the value of the business, identifying areas that diminish value and then finding ways to improve these areas so you can obtain the maximum price.

If your business is a corporation, a key issue is to decide whether you are selling your shares or the assets of the corporation. Both strategies will yield different outcomes in terms of proceeds received and taxation issues. Generally the purchaser will wish to purchase assets to obtain favourable taxation treatment as well as avoid potential legal liability issues that a share ownership transfer can create.

We advise you to seek professional guidance regarding the legal and tax implications with respect to succession planning.

This 'n That at Logan Katz ...

Congratulations to HaiXia Nie and Sekna Khanafer, two of this year's Logan Katz scholarship recipients from the University of Ottawa.

WELCOME!! LK is thrilled to announce the following additions to our absolutely incredible staff:

Merry Sun will provide invaluable assistance to Judy, Anthony, Jamie, and Carmen in our always expanding Financial Reporting Services.

Sharon Zhang brings energy and enthusiasm in her role as a staff accountant. She has three years of extensive experience with H&R Block in personal tax preparation, and is completing her university studies at the University of Ottawa at the end of this month.

On April 10, 2007, our very own **Colette Sauvé, C.A.**, was one of 3 judges at the **University of Ottawa Business Competition**, co-sponsored by LK and the National Bank of Canada.

Also awarded the very prestigious judges chair was **Denis Chainé, C.A.** Denis was honoured to be invited to take part as a jury member for the **Regroupement des gens d'affaires excellence awards** held on April 14, 2007.

Upcoming Breakfast Seminars

May 17, 2007

Keith Taylor
KT Management Services
"New Ways to Grow Your Business"

June 21, 2007

Grant Mellow
Action International
"Get Your Business Working For You!"

LOGAN KATZ LLP BREAKFAST SEMINAR SERIES—SNEAK PREVIEW!

"New Ways to Grow Your Business" - Keith Taylor, KT Management Services

KT Management Services provides business advisory services to clients in a variety of industries. Keith W. Taylor has over 25 years in general management, sales, business development and marketing in large multi-national organizations and small startup companies. He has developed several channel programs, recruited channel partners, and has project management experience implementing technology at client sites. Keith has developed and implemented several business plans, has strong analytical skills and is proficient at finding new business opportunities.

Logan Katz is very excited to host Keith's presentation on "New Ways To Grow Your Business" and would be pleased to have you join us. To find out more about this topic, be sure to sign up for our upcoming breakfast seminar on May 17, 2007.

Watch for your invitation coming soon and reserve your seat quickly – our breakfast seminars are consistently filled up!