

## Buy - Sell Fundamentals

1. Use a factor of Book-Value as price
  - a. 75% of Book-Value recommended
  - b. Construction company cannot afford to pay “appraised” value - wipes out equity
  - c. Book-Value is realistic for construction companies
  - d. Avoids competing appraisals and arbitration
2. Extended payment period
  - a. 5 to 10 year payback period
  - b. Use minimal interest rate
  - c. Accelerate payment at company’s discretion
  - d. Subordinated debt for bonding purposes
3. Include non-compete language
  - a. Do not fund competitor’s start-up
  - b. Payments are terminated in the event of competition
  - c. Non-compete period comparable to payback terms
4. Restrict transfer of shares
  - a. Company to have right of first refusal
  - b. Allow transfer to family members with approval of company
  - c. Consider requirement to sell to company/other owners
5. Create “tie breaker” vote
  - a. Need voting stock or majority interest to pass to working owner or stockholder
  - b. Prevents deadlocks and forced liquidations
6. Fund with cross-purchased life insurance in the event of death
  - a. Removes insurance proceeds from decedent’s estate
  - b. Creates tax basis for purchaser
  - c. Allows capital gain (15% rate) to beneficiaries of estate

7. Fund partial buy-out with life insurance, balance with installment note
  - a. Satisfies current cash needs of beneficiaries without crippling company
  - b. Reduces amount of insurance proceeds included in “value” of company
  
8. Discount purchase price in event of disability
  - a. Reduce price to be paid if party is disabled (vs. death)
  - b. Extend payment period
  
9. Owner to use life insurance trusts to pay estate taxes
  - a. Owner “gifts” insurance premiums to trust beneficiaries
  - b. Insurance proceeds are not included in owner’s estate
  - c. Insurance proceeds are tax-free when received