

Equity Access Solutions™ “Case Study”

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Bob Knight started Knight Sports, Inc. (KSI) 23 years ago and has built it to become one of the best basketball manufacturers in the nation. He has three manufacturing locations in the Midwest and has built the revenues to \$20 million with a total staff of 200.

Each location has its own general manager who has been with the business for many years. Bob is 53 years old and has also developed a strong corporate team that actively runs the day-to-day operations. His desire is to continue in the CEO role for 5 more years and then transition the CEO role and his company ownership to the management team he has built. Bob wants to stay on as a part-time consultant for an additional 4 years, if requested, and then be fully out of the business by age 62, or a total of 9 years from today.

Bob has spent a great deal of time and effort grooming his management team for the succession plan he has created. Each general manager is in their early 40s and has fully developed relationships with the company's suppliers and customers in their region. The corporate team has produced a clear successor to Bob, which is the current COO, whom Bob continues to mentor. Bob has established a compensation program that rewards each region based on performance and has seen great results from that program. KSI is an S corporation for tax purposes and Bob owns 80% with his management team owning the other 20%. The total value of KSI is \$5 million. Bob has discussed the plan of his transition with his management team and they have all accepted the concept and are eager to move forward. Because no one on the management team has substantial assets, Bob's current plan is to sell the company on contract to them over a period of time once he turns age 58. Bob's bank had provided both long-term financing and an operating line of credit to the company, but has expressed some concern over financing a buy-out of Bob's interest in addition to the financing already in place.

Equity Access Solutions™ (EA) was introduced to Bob by his accountant as a means to begin funding the succession he knows will be happening soon. EA was developed to utilize premium-financed insurance to build a fund which can be used to buy Bob out with favorable financing and tax results. KSI agreed to borrow \$4 million over 5 years from an approved EA lender. The terms of the loan include interest-only payments for Bob's life at LIBOR plus 175 basis points, which was at 6% as of 10/10/08. KSI will pay these interest-only payments at the end of each year for the first 5 years, equaling: \$48,000, \$96,000, \$144,000, \$192,000 and \$240,000 respectively. This makes the company's total investment in EA while Bob is an owner \$720,000. Further, this loan is made in 5 equal installments over 5 years at \$800,000 per year. These installments are then deposited immediately into a specially designed high cash value insurance policy, which will provide \$10,989,056 million of life insurance on Bob immediately. The insurance policy will be owned by Bob but will be the major source of collateral for the KSI loan. The loan payments deposited into Bob's policy will be a deductible expense to the company and compensation to Bob.

Upon Bob's exit from ownership and his CEO role, KSI will redeem Bob's stock at the value net of the debt, which will be very low. This will be taxable to Bob as a capital gain. Bob will own the insurance policy and access the cash value for retirement income and death benefit. Bob's team will pay off the loan already in place of \$4 million over ten years with annual payments of \$543,472. Bob can access the policy for tax free withdrawals of \$451,336 per year for 20 years or a total of \$9,026,718. The death benefit in force decreases as withdrawals are made from the policy and at age 82 Bob still has \$916,586 of insurance in place. EA has provided Bob with a very favorable result from the pre-funding of his succession to providing his management team a buyout solution that includes favorable financing terms.