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# The "Oldco/Newco" technique for Management Team Transfers

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The "Oldco/Newco" business transfer structure can provide a successful Exit Plan for business owners who want to avoid ongoing business operational liability, minimize tax consequences on a sale of business assets, and redirect business cash flow. We also acknowledge how it can be relatively straightforward to implement an "Oldco/Newco" strategy that accomplishes the following:

1. Separates future liability and risk from existing assets.
2. Carves out the assets or business operations appropriate for transfer to either employees or children.
3. Directs future income from the overall business operation to the appropriate entity or person.

"Oldco/Newco" is a good Exit Plan if you have key management team members who want ownership of the company now or they might leave "Oldco" and form a new, competitive entity. "Oldco/Newco" also can be a good Exit strategy when you want out immediately. Your business ("Oldco") may be worth too much to sell to the management team, in comparison to the projective future cash flow. Consequently, the standard technique of using cash flow to first pay for a minority interest over a number of years before having the management team purchase the balance of the ownership interest does not work well. In an instance such as this, "Oldco/Newco" enables your management team to continue running the business in "Newco" and lease what is needed from "Oldco." Ultimately, this strategy might satisfy your management team's desire for immediate control and ownership — as well as your desire to immediately leave the business.

Also, the "Oldco/Newco" strategy for management team business transfers still enables you to exit without risking the entire asset value of the business. To illustrate the advantages of "Oldco/Newco" in this context, it is helpful to contrast this business transfer technique with the typical transfer-to-insider strategy. If you transfer your business to insiders in the traditional manner, a minority ownership is initially transferred to the management team and you remain in control of the business. In this scenario, either you need to remain involved in the business, or in control of the ownership, otherwise you risk the loss of the value of the company. This may be an acceptable risk when your management team is proven or you wish to maintain

some involvement in the business.

However, if you are ready to leave today and your management team is not sufficiently tested or experienced, the "Oldco/Newco" concept allows you to leave your company without risking the entire asset value of the business, if the successor management does not succeed. As with any Exit Plan, though, it is important to use the appropriate tax and valuation professionals to correctly structure an "Oldco/Newco" strategy.

It is most advantageous to consider the "Oldco/Newco" technique when the liability exposure of your business operations is significantly great. Typically, this is a favorable strategy for businesses like construction general contractors, architecture firms, food processors and home builders. Also, in situations where the company's bank or bonding company refuses to release the "Oldco" owner's personal guaranty or collateral from the loan or bond, few owners are willing to part with control or ownership of the underlying business assets. Retaining the assets in "Oldco" can help to ensure that those assets are available for liquidation to pay off business indebtedness.

Overall, "Oldco/Newco" is a strategy that is well suited to meet many owners' business transfer exit objectives. If you have any questions about how this strategy applies to your company, please contact me.