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*A Multi-Disciplinary Process for The Parent-Child Business Transfer Your Client
Thought Was Impossible*

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Case Study

Virgil Vale HVAC Corp.

Virgil Vale, age 58, owns 100% of the outstanding stock of Virgil Vale HVAC Corp. (the "Company"), which he founded in 1980. The Company's business is the sale, service and maintenance of residential HVAC equipment.

Virgil and his wife Vera, age 56, have two children. 34-year-old Jill works with Virgil and is married with two children. Their son, Felix, 32 years old, is a tenured high school science teacher in a local school district. He is divorced and has two children. Virgil had offered both of his children the opportunity to join him in the Company but neither had any interest in doing so.

In 2001, Virgil was diagnosed with cancer. His doctors told him that his survival was in doubt and that if he did survive would face a lengthy recovery. Virgil and Vera felt that they had no choice but to ask one of their children to run the Company during Virgil's illness and, hopefully, his recovery.

They first considered Felix because of his proximity. But, Felix was unwilling to leave his secure teaching career which afforded him the flexibility to spend a meaningful amount of time with his children. Upon reflection, Vera and Virgil were not disappointed by Felix's declination. Although his proximity made him the logical choice, Virgil had privately told Vera that he had little faith in his son's business acumen and work ethic.

Vera and Virgil had not wanted to ask Jill because she lived in another state where she was developing a lucrative career with a consulting firm. However, feeling that they had no other choice, they called her and asked her to come home to run the Company. Although heartbroken about leaving her career, Jill felt duty bound to help her parents.

Fortunately, Virgil recovered from his illness. He was out of work entirely for 7-months and not able to work full time for an additional 5-months. However, his illness had taught him the importance of taking "time to smell the flowers." "Full-time" did not mean the same long hours and intensity as it had before his illness.

Jill's priorities had also changed. Shortly after returning home to run the Company, she met Marco, a local attorney. They soon became engaged and were married around the time that Virgil returned to work. Jill understood that there was no-way to resume her consulting career. Marco's practice was local, and her father's physicians could give no assurances about her father's long-term prognosis.

Virgil was more than pleased to have Jill remain with the Company. He continued as president and retained authority over all significant decisions. Jill was designated vice president. In that role, she oversaw operations and finance.

Over the years Jill wanted to grow the Company aggressively. Among the suggestions she made to Virgil were:

- An aggressive campaign for Annual Renewable Service Contracts with customers
- The Company has annual service agreements with 250 customers. There is substantial room for growth in this area.
- Add Home energy audits to the Company's service offerings.
- Sales to Contractors
- Operational Efficiencies
- Opportunity to increase upfront revenue stream and customer base;
- Opportunity to lock in repeat customers and revenue;
- Each visit to a customer's home is an opportunity to sell upgraded equipment and acquaint the customer with new products and services the Company offers.
- Substantial need: Homeowners are anxious to save energy and cut costs
- There is a substantial amount of residential construction in the area. Jill has urged Virgil to institute an effort to develop relationship with the contractors and bid on their HVAC work.
- Increase the number of repair/maintenance calls made by the Company's technicians;
- Decrease the man hours devoted to each call.

Gabe King, the Company's Operations Manager and Gil Marshall, Service and Maintenance Manager had supported these and other growth strategies Jill suggested. Gabe and Gill, who have worked for the Company for, respectively 20 and 18 years, are key employees. Any growth plan for the Company would be infinitely more difficult if either one of them were to leave.

However, Virgil was unwilling to make the investments, e.g., additional employees, training and vehicles, that following these, and other strategies Jill recommended to him

would require. He was content for the business to retain its singular focus on selling, servicing and maintaining HVAC equipment for residents, and the modest year over year increases in revenue that came with that business model.

In 2017, a long-time friend of Virgil's and Vera's died. Suddenly, they focused on the facts that they were, respectively, 58 and 56 years of age and that Virgil had devoted the last 37 years to the Company and was still involved in day-to-day operations. They also thought back to 2001 and the things they promised each other they would do together if only Virgil would survive and recover – and that so many of those dreams remained unfulfilled.

Virgil is referred to you by a friend who knew that you had helped other business owners transition out of their businesses on their own terms. Following an introductory meeting Virgil retains you to design and assist in the implementation of his Exit Plan.

You begin the engagement by meeting with Virgil to help him establish what exiting “on his own terms” would mean to him. Virgil set the following objectives for business exit:

1. He will retire in 7-years, at age 65;
2. He will sell the Company to Jill rather than to a larger competitor. He fears that a larger competitor would dictate the price and terms of sale, would not treat Jill well and would be unlikely to keep the Company in the community, an objective which is very important to him. Jill has previously indicated her interest in owning the Company. Virgil knows that Jill does not have the money to buy the Company or even make a substantial down payment. However, believes that he will have to finance the sale no matter who the buyer is and would rather trust his child than anyone else to pay off a purchase money note. On the day he leaves the Company, he will need to have investment assets of \$6,000,000 to support his and Vera's desired post-business lifestyle of \$250,000 per year.

Vera becomes very upset when Virgil tells her about his intention to sell the Company to Jill. She feels that she and Virgil need to treat Jill and Felix equally in their estate planning. The Company is by far their largest asset and equality would be impossible if Jill were to become the sole owner of the Company. Vera's emotions are exacerbated by recent incidents at family gatherings where Felix said that “My sister makes all that money and always drives a late model “bimmer,” while I struggle to make ends meet on a teacher's salary.”

With the \$6,000,000 financial objective in mind, Virgil and Vera look at their financial situation. They begin to doubt whether Virgil's exit objectives are practical:

Financial Goal	\$6,000,000
Non-Business Assets	\$3,500,000
Needed from Business	\$2,500,000
Current Business Value	\$1,000,000
Gap (which must come from the Company)	\$1,500,000

Company Cash Flow: \$250,000

Given Virgil's and Vera's assets, how would you go about designing an exit strategy that would allow Virgil to retire in 7-years by selling the Company to Jill for at least \$2,500,000? What would that exit plan look like?

Here are some of the issues you might consider:

1. Who is (are) your client(s)?
2. Who should be at the initial meeting with you?
3. What additional information do you need?
4. Are Virgil's assumptions regarding financial goals, income needed, and departure date accurate?
 - Is it your role to question his assumptions? If not, who should?
5. Which recommendations would you make regarding:
 - Retaining and motivating the two key employees through Virgil's exit?
 - Transferring ownership to Jill?
 - When?
 - How—gift, sale, bonus of ownership?
 - Does Jill need to do anything to receive ownership?
 - Transferring assets to Felix?
 - Ownership of business?
 - Other assets?
 - What assets should be transferred and when?
 - When transfer assets?
 - Does Felix need to do anything to receive assets?
6. In considering above, describe how you resolve conflict between parents.