

Ownership Transition **INSIGHT**

WELCOME TO THE INAUGURAL ISSUE OF THE REVAMPED CHARTWELL CAPITAL SOLUTIONS NEWSLETTER—*OWNERSHIP TRANSITION INSIGHT*

It is our intent to communicate valuable information related to transitioning private business ownership.

Greetings and welcome to the inaugural edition of *Ownership Transition Insight*, the Chartwell Capital Solutions informational update on the world of ownership transition, business valuation, and merger and acquisitions. We feel very confident in our ability to serve your needs with any of these important business issues.

Let us first update you on the vision we have for Chartwell Capital Solutions. Our mission is to be the premier independent provider of ownership transition financial advisory services in our chosen markets. To us, this means assisting our clients in evaluating, analyzing, selecting, and executing upon the ideal ownership transition solution. We do this by providing sound, logical and objective financial analysis and opinions. Our analysis and opinions assist our clients in choosing between transitioning ownership to family members, management and employees, or third parties. Since we serve all of these markets, we are unbiased as to the ultimate ownership transition choice and truly offer an independent perspective on your particular situation.

In our business valuation practice, we document our valuation analysis in a formal business appraisal report to ensure our work meets the scrutiny of any regulatory agencies. In our transaction strategies practice, we implement and execute upon a market transaction that meets the needs of all constituents.

Thanks to the support of our many clients, business associates, and friends in the community, we have been fortunate to enjoy success in our own business. In the past 12 years, Chartwell has grown to a total of 21 dedicated and caring employees ready to serve our clients throughout the country.

We hope to continue earning your trust by providing sound financial analysis and outstanding service.

We hope this newsletter brings you timely and useful ideas on the ownership transition, business valuation, and merger and acquisition markets. We also hope you continue to place your confidence and trust in our abilities to serve your needs. If we should ever fail in this regard, please let us know.

Best regards and thank you for your continued support.

Chartwell Capital Solutions



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Ownership Transition | Business Valuation | Financial Advisory Services

EXIT GRACEFULLY & PROSPEROUSLY

One way or another, every business will eventually sell or transfer hands. A formal plan covering all likely transfer scenarios — whether voluntary or involuntary — is essential to ensure smooth transfer.

EXPECT THE UNEXPECTED

A well-planned exit strategy can help owners extract cash from their businesses, addressing a variety of transfer scenarios. These may include voluntary transfers such as retirement, gifts to family members, donations to charities, stock compensation plans for managers, or mergers or acquisitions. They may also include involuntary transfers such as death or disability, divorce, partner/shareholder disputes, bankruptcy or restructuring, or natural disaster.

Overworked owners tend to overlook the possibility of unexpected events. But operating a business without a contingency plan is like driving blindfolded: Things are fine as long as the road is straight and predictable. But when conditions change, the owner often runs into trouble.

WEIGH ALTERNATIVES

Once goals are set, it's time to evaluate which alternatives meet the owner's short- and long-term needs. Some of the most common exit strategies for private businesses are:

Existing shareholders. When several individuals share ownership, a buy-sell agreement can provide liquidity upon retirement or an unexpected “triggering” event. In some cases, the company repurchases the departing owner's shares. In other cases, the remaining shareholders pitch in. Shareholder life and disability insurance policies can help fund company buybacks.

valuation formulas, payment of appraisal fees, applicable valuation discounts and buyout terms.

Gifts to Family or Charity. For owners seeking to transfer ownership to relatives or a worthy charity, gifting interests in the business fits the bill. Proactive gifting schedules to family members that span several years can dramatically reduce transfer taxes.

Income tax advantages can also be realized if charitable inclinations are meshed with the client's estate planning.

Related-party sales. Rather than give away shares of the business, some business owners need cash and opt to sell the business. Numerous sale options exist. For instance, employee stock ownership plans (ESOPs) generate liquidity for the exiting owner while providing employees with a rare investment opportunity. Other potential buyers include suppliers, customers and competitors. They possess not only the requisite industry acumen to run the business, but also unique synergies that may warrant a premium price.

Mergers and acquisitions with unrelated buyers. Informed owners who can adapt to creative sales terms — including installment sales, seller financing and consulting contracts — often receive more than the asking price.

Clean up shop. Potential buyers will pay a premium for a business in “move-in” condition. Owners who continually position the company for sale maximize proceeds and expedite closing. Thus, preparing a business for sale is a matter of acknowledging weaknesses and emphasizing strengths.

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Comprehensive buy-sell agreements cover a broad array of triggering events—from death to imprisonment—and address valuation issues, such as

CHARTWELL PROFESSIONALS

CCS professionals have a thorough understanding of privately held businesses and the issues they face. Our partners welcome any questions you may have.

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UPCOMING CONFERENCES & EVENTS

The ESOP Association - Iowa/ Nebraska Chapter - Meeting and Golf Outing

July 17, 2008

The Legacy Golf Club - Norwalk, IA

Contact: Donna Walseth at
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ESCA - The 2008 Political Issues Conference & Lobby Day

July 28-30, 2008

Washington, DC

<http://www.esca.us/>

Chartwell Capital Solutions participates in several associations and their respective conferences throughout the year. These events are tailored to bring companies and professionals together to understand the benefits and issues owners face. We encourage you to attend the following conferences.

The ESOP Association - ESOP Sustainability Seminar

July 24, 2008

Embassy Suites Chicago
Downtown Lakefront Hotel,
Chicago, IL

<http://www.mnesop.org>

The ESOP Association - MN/ Dakota Chapter - 8th Annual Golf Tournament

July 31, 2008

Links at Northfork - Ramsey, MN

<http://www.mnesop.org>

Three areas to target during a cleanup include:

1. Administrative chores. Buyers don't want to inherit an owner's problems, including fraud risks. Owners should implement a strong system of internal controls that includes mandatory vacations, as well as job separation and duplication.

To ease transition to new management, owners should formally document job descriptions and update the organizational chart. It's also important to train and retain second-generation managers.

2. Finances. Transparent financial reporting facilitates efficient business transfers. Buyers are often turned off by the need to recast income statements to eliminate aggressive tax deductions, nonrecurring income or personal expenses run through the business. Prepared sellers bring business plans and financial forecasts to the negotiation table.

Most buyers consider nonoperating assets a hassle — especially for C cor-

porations. Before negotiating a sale, an owner should remove extraneous assets, such as idle equipment, vacation homes or investments, from the balance sheet.

3. Performance. Buyers prefer a business that's running efficiently and effectively. Too often, owners become complacent after years of operating the business. To maximize proceeds, an owner should continually pursue growth opportunities and reinvest in equipment, technology, and research and development.

START TODAY

For most entrepreneurs, their companies represent the bulk of their personal wealth. Unlike pensions or retirement accounts, private business interests take significant time and effort to sell.

Most owners think about retirement and contingency planning, but few put their thoughts down in writing or distribute them through the appropriate channels. In the high-stakes game of exit planning, there's no time like the present.

GET PROFESSIONAL HELP

It is important to have knowledgeable advisors when weighing exit strategy alternatives. Corporate planning professionals can provide detailed analysis and insight into the various available options and help select the one that is right for a business owner.

Throughout the years, Chartwell Capital Solutions has been instrumental in designing and implementing ownership transition plans for privately-held enterprises. A solid plan considers the effect upon the current and new shareholders, as well as the company and its employees. The plan design may transfer partial or total ownership to family members, management, employees (ESOP), or third parties.

*Please contact Chartwell at
612-230-3100 for more information
on our exit planning services.*