



Business Continuation

User Guide

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Introduction

Business Continuation helps owners consider their continuing business needs and the subsequent problems they face. With Business Continuation, you can present potential solutions and their implications in a manner that suits each owner's individual needs and concerns.

Business Continuation uses this process to present business continuation issues:

1. First, the program allows you to explore how various solutions would fit owner needs, which are defined by the relationship between the owner, the form of business, and owner's preferences.
2. Second, the program allows you to explore funding needs. Along with the potential solution, there are usually monetary needs that must be met, whether by the owner, the owner's family, or the business itself. You can consider potential solutions and determine the funding requirements for the amount.
3. Third, the program allows you to explore funding alternatives. Given the owner, preference, and potential solution, you can compare these funding alternatives:

Do nothing now

- Use cash when needed.
- Borrow cash when needed.

Start planning now

- Deposit money in a sinking fund.
- Provide needed cash with life insurance.

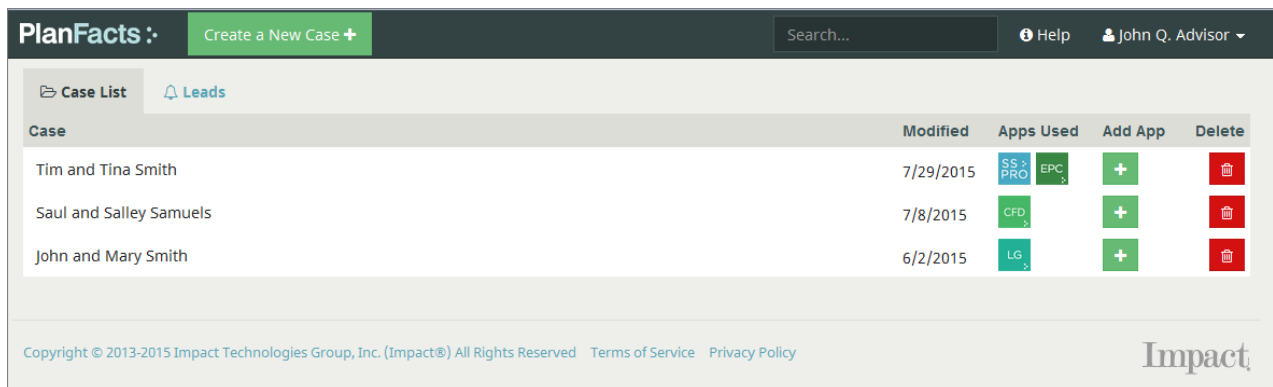
Business Continuation is a powerful presentation tool that provides extensive supporting information for your presentation. But it is also flexible. As you know, business-planning sales involve these four steps:

1. Convincing clients that they need to consider continuing their business.
2. Determining the fair value of the business.
3. Agreeing to a solution, which may or may not involve an agreement, and adopting a business continuation plan.
4. Determining how to fund the solution.

With Business Continuation, you can complete any one of these steps without completing the others. For example, you may determine a client's need, determine a fair value, and implement legal documents for a plan, but not do the funding. No other product provides this level of power and flexibility.

Starting Business Continuation

Upon logging into PlanFacts, you will land on the Dashboard.




The screenshot shows the PlanFacts dashboard interface. At the top, there is a navigation bar with the PlanFacts logo, a 'Create a New Case +' button, a search bar, and user information for 'John Q. Advisor'. Below the navigation bar, there are tabs for 'Case List' and 'Leads'. The main content area displays a table with the following data:

Case	Modified	Apps Used	Add App	Delete
Tim and Tina Smith	7/29/2015	SS PRO, EPC	+	🗑️
Saul and Salley Samuels	7/8/2015	CFD	+	🗑️
John and Mary Smith	6/2/2015	LG	+	🗑️



At the bottom of the dashboard, there is a footer with copyright information: 'Copyright © 2013-2015 Impact Technologies Group, Inc. (Impact®) All Rights Reserved' and links for 'Terms of Service' and 'Privacy Policy'. The Impact logo is also present in the bottom right corner.













New Case

To create a new case, click  and select Business Continuation from the list of available products.


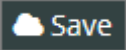
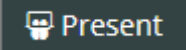
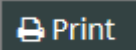
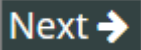
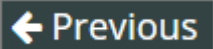
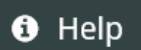



Add to or Open Existing Case

To add Business Continuation to an existing case, click the  under “Add App” and select Business Continuation from MY APPS. To open an existing BC case, simply click the  icon under “Apps Used”.

Modified	Apps Used	Add App	Delete
10/22/2015	  		
10/22/2015			
10/15/2015	 		

Navigating Business Continuation

	<p>Click to open the PlanFacts Navigation Menu. From here you can go Back to Dashboard, Duplicate this case, open the Success Center, or open another one of your available MY APPS.</p>
	<p>Click to save your case. You will be prompted to name you case upon saving for the first time. After saving, the button will appear inactive (greyed out) until a change is made in the case, and the button will become active again.</p>
	<p>Click to begin your on-screen presentation. Use the left and right arrow keys to advance the slides.</p>
	<p>Click to generate a printed presentation.</p>
	<p>Advance to the next screen.</p>
	<p>Return to the previous screen.</p>
	<p>Click to access general help for Business Continuation.</p>
	<p>Click to see helpful information regarding specific input prompts. Click again to hide.</p>

Sample Case

Business Continuation includes a sample case for you to review and is accessible in the Success Center.

To access the Success Center:

1. Expand the Navigation Menu drop down.
2. Select Success Center to open the page
3. View the Sample Presentation on your computer or save the PDF and drag and drop it onto your PlanFacts Dashboard to view the case inputs.

Tip If you want to modify the case, duplicate the case using the Navigation Menu drop down and save it under a different name. That way you will always have the original sample to refer to. You can also overwrite the case by dragging and dropping the PDF from the Success Center onto your Dashboard again.

Business Value Calculation

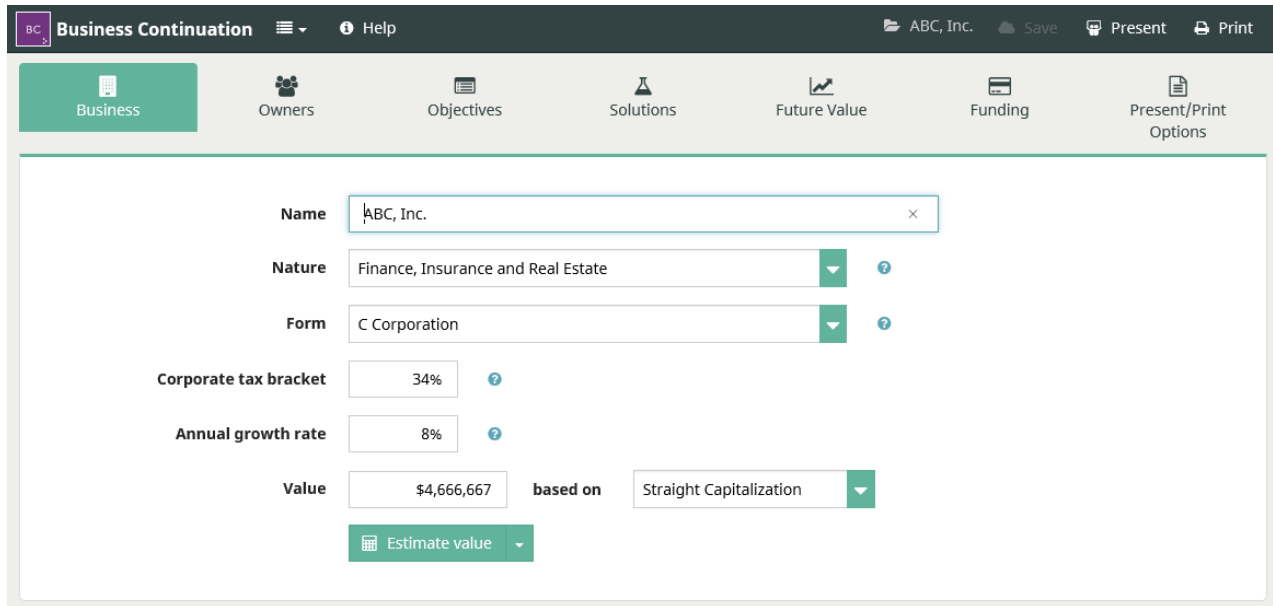
This is the calculation Business Continuation uses to figure the value of businesses.

Value of business EOY = (1 + growth rate) x value of business in previous year

Entering Business Information

This is general information relative to the various input screens in Business Continuation.

Business Screen



The screenshot shows the 'Business Continuation' software interface. The top navigation bar includes 'Business Continuation', 'Help', 'ABC, Inc.', 'Save', 'Present', and 'Print'. Below this is a menu with 'Business' (selected), 'Owners', 'Objectives', 'Solutions', 'Future Value', 'Funding', and 'Present/Print Options'. The main content area contains the following fields:

- Name:** ABC, Inc.
- Nature:** Finance, Insurance and Real Estate
- Form:** C Corporation
- Corporate tax bracket:** 34%
- Annual growth rate:** 8%
- Value:** \$4,666,667
- based on:** Straight Capitalization

There is an 'Estimate value' button at the bottom of the form.

The **name** of the business should be entered exactly as it should be printed on the presentation.

The **nature** of the business. There are general categories in the nature of the business to compare various industrial and commercial types of business. These match the SIC Codes, which are found in the Standard Industrial Classification manual. This is very helpful and needed for various types of business insurance quotes, such as group life and medical, property and casualty, workers comp and other business related policies.

Form of business refers to how the business is organized for income tax purposes. The various pass-through organizations as well as the typical tax corporations. C corporations being the most common and S corporations being the next most common amongst small employers.

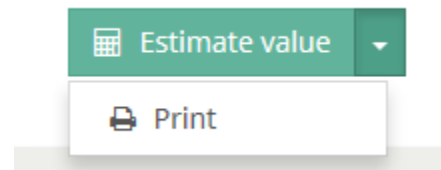
The **Corporate Tax Bracket**. Generally speaking, the corporate tax bracket would be illustrated at 35% but any amount can be entered. For some tax forms, this field may be hidden since they do not have tax or have a standard tax rate.

The **annual growth rate** represents the average annual earnings of the business as a percentage of the revenues. It's used to reflect the growth rate for the immediate future.

The **value** of the business can be entered several different ways. If the employer gives you a value, you can just enter directly. The value that the business owner prefers to use. By clicking the **estimate value** button, the business continuation will help determine several different standard methods for valuing a business as guide to assist in determining which value to use. The value of the business is really broken into four units to estimate first the financials which start with the book value.

Note:

Click the down arrow to the right of the Estimate value prompt to access the print command. Clicking the print command enables you to print any of the seven pages dealing with the Business Valuation without printing the



complete Business Continuation report. These are the same pages as in the Business Continuation report except this enables you to print the evaluation separate from the Business Continuation. Makes for a nice seven-page summary of the values.

This is especially useful when presenting Business Continuation to a group in which you might want to print just the Business Valuation for everyone and then for each owner print their own personal copy of the Business Continuation that applies to them.

Estimate Value – Business Valuation

The screenshot shows the 'Business Continuation' software interface. At the top, there is a navigation bar with 'Business Continuation' and 'Help' on the left, and 'ABC, Inc.', 'Save', 'Present', and 'Print' on the right. Below this is a menu bar with icons and labels for 'Business', 'Owners', 'Objectives', 'Solutions', 'Future Value', 'Funding', and 'Present/Print Options'. The main content area contains several input fields: 'Name' (ABC, Inc.), 'Nature' (Finance, Insurance and Real Estate), 'Form' (C Corporation), 'Corporate tax bracket' (34%), 'Annual growth rate' (8%), and 'Value' (\$4,666,667) based on 'Straight Capitalization'. A red box highlights the 'Estimate value' button.

Financial Tab

The screenshot shows the 'Business Valuation' window with the subtitle 'Estimate the fair market value of the business'. It features four tabs: 'Financial' (selected), 'Calculation', 'Discounts', and 'Comparison'. Under the 'Financial' tab, there are three input fields: 'Book value' (\$3,000,000), 'Average annual earnings' (\$600,000), and 'Excess owner salary' (\$100,000). A 'Next' button is located at the bottom right.

Book value is often misconceived because most business owners think of book value from the income tax standpoint, meaning the depreciated value used for the income tax purposes. That's not what this book value refers to for valuation. Book value is the fair market value of all corporate assets. If you looked at every corporate asset, took its fair market value today, (some items

appreciate some depreciate) but you take what is worth today, and the sum of all assets become the book value. It's the physical value today of all the assets. The difference between this and the Income tax book value is that various methods of depreciation are allowed for valuing for tax purposes. Often the depreciated value for tax purposes is far less than what the current market value would be. There are also instances where the market value is far less than what the IRS allows for the depreciated value. Again, book value should reflect what the value would be if all the assets of the business were sold.

Average Annual Earnings. It is Gross Profit minus Expenses and Taxes. Adjusted Average Net Annual Earnings of the business is obtained by adding any excess owner salary to the Average Annual Earnings.

Excess Owner Salary. Sometimes the owners are paying themselves more than they would pay an employee to just do their day-to-day business functions. If their salaries reflect more than what you would pay a non-owner to do the same job, the difference is the “excess owner salary.” For valuation purposes that excess salary is treated the same as net earnings and included in adjusted average net earnings.

Calculation Tab

Business Valuation

Estimate the fair market value of the business

Financial Calculation Discounts Comparison

Annual growth rate	8%	?
Capitalization rate	<input type="text" value="15%"/>	?
Fair rate of return	<input type="text" value="7%"/>	?
Goodwill multiplier	<input type="text" value="5"/> years	?
Forecast future earnings	<input type="text" value="7"/> years	?
Discount future earnings	<input type="text" value="7%"/>	?

← Previous Next →

Several factors have to be considered for calculations.

One is the **Annual growth rate** which was entered previously (on the Business Information page).

Capitalization Rate. Capitalization Rate reflects the risk of the business as well as the expected returns on the business. A well-established business does not have a lot of risk other than the normal business risks. Typically, its Capitalization Rate is between 12% and 15%. Most, but not all businesses, have some extra risks such as being a new business, has new management, a lack of prior success so the Capitalization Rate is usually a higher—15%-20%. A business that has fewer of those qualities may be 20% and 25%. A new business, just started with an owner who really is not experienced in this business, may have a 25%-30% Capitalization Rate reflecting a higher risk to the business until it becomes established.

The **Fair Rate of Return** for a business is if all the assets (the book value) were invested today at rates typically expected, what rate would that be? In other words, if all the assets were liquidated

and you just went on the market and invested proceeds, what rate would you expect to receive? That's the fair rate of return. Usually, that's less than the average annual growth rate. (If the owner doesn't expect the growth of the business to be better than what the assets could be invested, why would he or she invest in the business?)

The **Goodwill Multiplier** is basically all of the goodwill, the reputation of the business, and the established clients. These valued relationships with the public would continue for some period. A well-established business might even, if the management left, continue for 4, 5, or 6 years just from the effects of these relationships. That's the Goodwill Multiplier.

Forecasting future earnings, this is based on the predictability using past performance. Future earnings are discounted for a Fair Rate of Return investments with similar risks. Usually, this is equal to or greater than the years for goodwill. What's a reasonable forecast for the business with good management? How long should it be expected to last into the future without major changes or recapitalization? Typically, this exceeds just the goodwill factor.

Discount Future Earnings. If earnings are projected into the future, the future value should be discounted back to today's value. Again this is similar to the Fair Rate of Return. The rate should reflect the rate expected for comparable investment opportunities. In other words, if investing in other businesses with similar risk, what rate would be reasonable? That's the rate that should be used for the discount. Often it is equal to the rate that we're assuming for the growth of the business, maybe even higher.

Discounts Tab

The screenshot shows a software interface for business valuation. The main window is titled "Business Valuation" and has a subtitle "Estimate the fair market value of the business". There are four tabs: "\$ Financial", "Calculation", "Discounts", and "Comparison". The "Discounts" tab is selected. Under this tab, there are two input fields: "Lack of marketability rate" and "Lack of control rate". Both fields currently show "0%". To the right of each input field is a small question mark icon. At the bottom right of the interface, there are two buttons: "Previous" with a left arrow and "Next" with a right arrow.

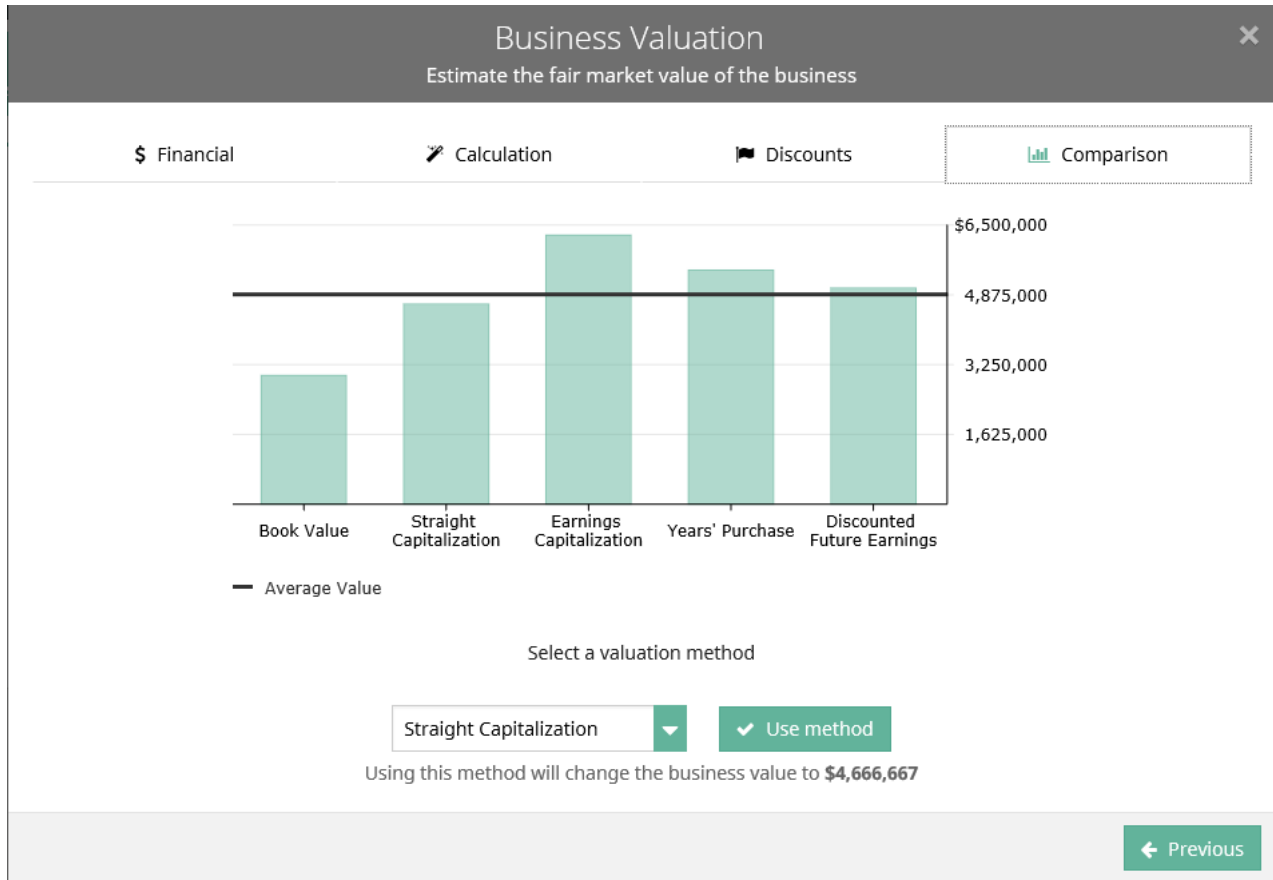
This category doesn't apply to the business, but to an owner's portion of the business.

If the business interest **lacks marketability**, in other words, it would be hard to sell the shares of the business to a typical investor at fair market value, then it is said to not have marketability--there's no one readily available to buy the interest. Without an available market for the interest, most investors would "discount" the value of that interest by 10—20%.

When a business interest represents just a minority interest, that interest is said to **lack control**. When an owner has more than half of the business, for example 60% of the business, then that interest has control of all decisions. If the business interest represents less than half of the business, then that interest cannot control the decisions and is said to "lack control." Obviously, the majority interest wins all decisions and the minority interest is not assured of winning any decisions. This lack of control for a minority interest may be discounted 10—20% of its full value.

This discounts should be applied separately. If you had 20% discount for marketability, then that would reduce the value to 80%. If you also had 10% for lack of control, you would have 90% of the 80% or 72% net. Discounts are used often with family limited partnerships and limited liability companies to value the portion representing the "limited" interest.

Comparison Tab



This screen applies five different valuation methods to the various calculation factors, financial information, and discounts.

Book value is the value on all the assets.

The **Straight Capitalization** takes the adjusted average annual earnings (net average annual earnings plus any excess owner salary) and divides it by the Capitalization Rate. This method emphasizes the earnings from a risk perspective.

The **Earnings Capitalization** Method looks at the Adjusted Average Annual Earnings (net average annual earnings plus any excess owner salary) and the estimated earnings on the assets (book

value times a fair rate of return). The difference (excess earnings) is capitalized and added back to book value. This method puts emphasis on the basic value represented by book value and values risks as associated with earnings.

The **Discounted Future Earnings** uses the Adjusted Average Annual earnings and the annual growth rate to forecast each future year's earnings. It then discounts each of those years back to today. The sum of these discounted future earnings is used for this method. This method puts the most emphasis on the earnings and the investment value of those earnings.

The **Year's Purchase Method** looks at the Adjusted Average Annual Earnings (net average annual earnings plus any excess owner salary) and the estimated earnings on the assets (book value times a fair rate of return). These excess earnings can be accredited to goodwill; thus, the goodwill multiplier is multiplied times this excess earnings to determine the value of the goodwill. The goodwill value is then added to the book value to determine the Years' Purchase method of determining value. This method combines the business's assets with its relationship values.

Average Value. The average of all of these methods is a good way to compare the various methods. But the IRS says that averages are not a valid business valuation method. The IRS insists that a fair market value must consider the particular business and not a collection of businesses. Other businesses in the same type of business, the same markets, the same size and type of comparable businesses should be the method applied to this business. Each business is a combination of one or more methods that works best for it. The IRS says for the value to be accepted as being fair, it must consider those unique factors of that business and not a collection of all businesses. An average is not allowed; you must determine and say why this business is best measured by this method. Only a full appraisal can determine an acceptable value, but the business estimates provided with these methods can serve as a preliminary value for planning.

A business appraisal should always be sought before making major business arrangements that involves the fair value of the business. Valuation guidelines have been around for a good while but

the basic examples are still valid as governed by Revenue Ruling 59-60. This rule basically lays out the IRS value must be fair at the time that it was determined and must be applicable to the business at hand. The Buy/sell agreements and what value are used in the buy/sell agreements must be in accordance with the Internal Revenue Code, Section 2703.

The comparison page allows the selection of one of these five methods. Clicking the method to use will return to the Business Information screen with this value entered. By choosing “Direct Entry” any desired value may be used. This is important as the business owner may want a specific value used or may not want to provide the various factors needed to calculate each method.

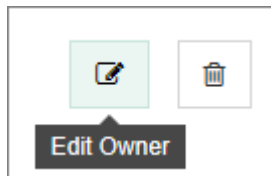
Owners Screen

Business Continuation | Help | ABC, Inc. | Save | Present | Print

Business | **Owners** | Objectives | Solutions | Future Value | Funding | Present/Print Options

3 owners, with a combined business share of 100% No more business share remaining.

Owner Name	Role	Ownership %	Birth date	Years to retirement	Cost basis	Tax bracket
Adam Anderson	President	40%	1/2/1966	15 years	\$150,000	30%
Betty Boston	Vice-President	35%	1/2/1961	10 years	\$100,000	30%
Carl Cannon	Treasurer	25%	1/2/1971	20 years	\$250,000	30%



Edit Owner. Details about each owner you want to include in the report is shown on this screen. It's important to note that you do not have to include all owners in the report. Each owner that you do want included or want to make a presentation for must be entered and their respective percentage of ownership shown. That's done by clicking the Add Owner or Edit icon. A screen is shown for each owner.

Basics

Edit Adam Anderson

Basics

Name

Birth date

Business title

Years to retirement

Financials

Business share

Cost basis

Tax bracket

Owner's name, date of birth, and business title must be entered. This information will be shown on the screen and in the printed presentation. The **years to retirement** is very helpful in determining the years to illustrate before showing the buy-sell being implemented.

Financials

Business Share. The financials of the individual basically deals with the ownership percentage for this particular owner and the **cost basis**, if any. Many times the small business owner put almost no money into the plan, so he has very low-cost basis. Whereas later, owners might very well have to buy their way in and put up a considerable amount of money and so do have a high cost basis. It is very important when it comes time to sell or transfer the ownership to someone else and whether or not capital gains are applicable into what values those taxes are applicable.

The **tax bracket** is the personal tax bracket of the individual. Typically, we put in the tax rate and for this purpose often the highest marginal rate is used as opposed to just the effective tax rate, since all of these will come on top. Usually, it comes on top of everything else in a given year when any of the taxation for selling the business shares become applicable. When you **confirm** the owner's information, it returns you to the Owner Information screen displaying the names, the percentage ownership, the birth date, years to retirement, tax bracket and the cost basis; information that you want readily available in making reference to for the various owners. Enter each owner this way, in the same manner that you want illustrated in the presentation. Any interest that's leftover will be considered other owners with the remaining percentage applied to them so the full value of the business is always illustrated.

Objectives Screen

The screenshot shows the 'Objectives' screen in the Business Continuation software. The interface includes a top navigation bar with 'Business Continuation', 'ABC, Inc.', 'Save', 'Present', and 'Print'. Below this is a secondary navigation bar with icons for Business, Owners, Objectives (selected), Solutions, Future Value, Funding, and Present/Print Options.

The main content area is titled 'Who will continue each owner's business interest?' and lists three owners with their respective ownership percentages and roles:

- Adam Anderson** (President, 40%): Role is 'Co-owner', 'who is...' is 'Not family'. A warning message states: 'Changing the objectives for Adam Anderson will remove their Entity Purchase solution and the life insurance policy needed to fund the solution.'
- Betty Boston** (Vice-President, 35%): Role is 'Non-owner', 'who is...' is 'Family'. A warning message states: 'Changing the objectives for Betty Boston will remove their Unilateral Buy/Sell solution and the life insurance policy needed to fund the solution.'
- Carl Cannon** (Treasurer, 25%): Role is 'Co-owner', 'who is...' is 'Not family'. A warning message states: 'Changing the objectives for Carl Cannon will remove their Cross Purchase solution and the 2 life insurance policies needed to fund the solution.'

The next screen deals with the objectives of each owner. Who does each owner want to continue their business interest? How do they want their business interest transferred? Who is going to buy their interest or how are they arranging that? We do that in couple of ways because depending on the relationship to the business owner, a co-owner or non-owner, and dependent whether it's a family member or not, there are certain business continuation options available and not available. For that purpose, we're first saying who will continue this owner's business interest? Is it a co-owner, non-owner or do they just plan to liquidate their interest for the best market value? In other words, just sell it piece-meal. They really don't care who buys it or whether it is bought as a business - it's bought as assets.

Then what's the relationship of the co-owner or non-owner? Is it a family or non-family? The relationship determines certain rules that apply to selling to a family member as opposed to a non-family member or whether they're in the business, not in the business. There is an easy chart available which basically shows what business solutions are available in all of these various combinations. Each owner does not have to have the same objective. For example, the owner or president might have desires to sell his or her shares to a son or daughter that's active in the business. Whereas, the next largest shareholder wants him to sell to the other owners but they are not related to any of them. There's a different possibility. Each owner does not have to have the same objective. That's one advantage of the Business Continuation Program--it can handle multiple objectives to deal with all the unique personalities and objectives of each business owner.

Chart:

Solution	Co-Owner		Non-Owner		Liquidate
	Family	Non-Family	Family	Non-Family	
Cross Purchase	■	■	■		
CRT (Charitable Remainder Trust)	■		■		
Entity Purchase	■	■			
FLP (Family Limited Partnership)	■	■	■		
Gift Business			■		
GRAT (Grantor Retained Annuity Trust)	■		■		
GRUT (Grantor Retained Unitrust)	■		■		
Installment Sale	■	■	■	■	
Private Annuity	■		■		
Section 303 Stock Redemption Plan	■		■		
Stock Redemption Plan	■	■			
Transfer; then Buy-Sell as Co-Owner			■	■	
Trusted Cross Purchase	■	■	■	■	
Unilateral Buy/Sell			■	■	
Wealth Replacement					■
Will/Bequest				■	
Wait and See (Cross Purchase)	■	■	■		
Wait and See (Entity Purchase)	■	■	■		

Warning Notes: One important thing is the message comes up indicating when there's already been insurance policies associated with a solution and an owner. Obviously that they have been tailored for a unique situation if the objective changes to where that's not applicable. It's simply a warning that if you change the objectives that the insurance that's been associated with that or

the other would be lost and you'll have to re-enter it because it won't be applicable. Just a warning so that you don't undo something just to look at something. This is when you're reviewing a plan so that you don't inadvertently change things on one screen that you entered on a later screen.

Solutions Screen

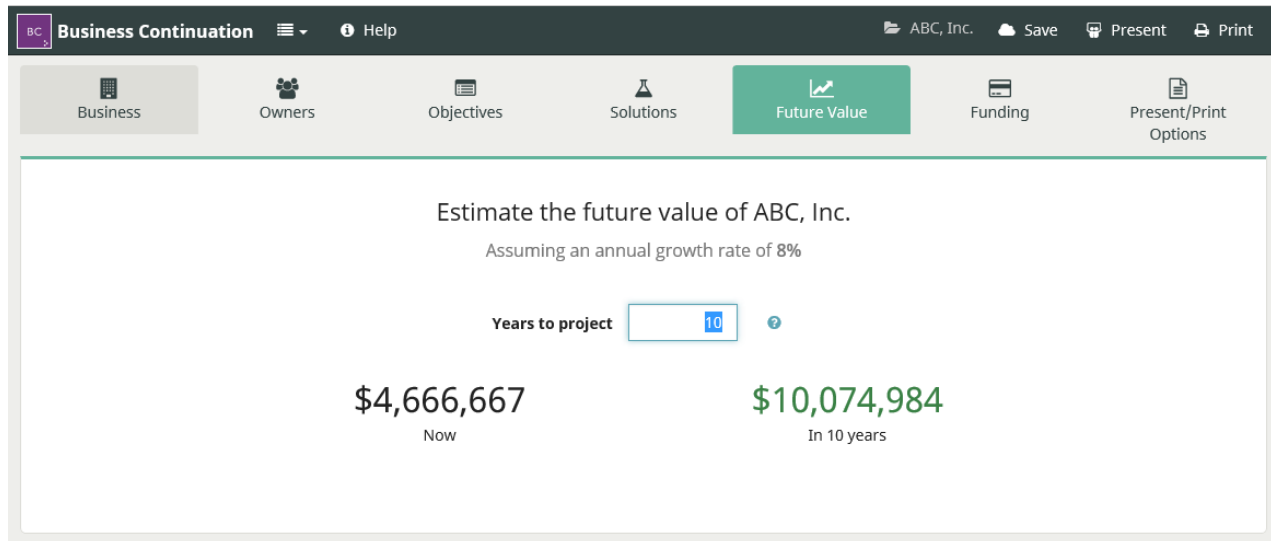
The screenshot displays the 'Solutions' screen in a software application. The top navigation bar includes 'Business Continuation', 'Help', and 'ABC, Inc.' with 'Save', 'Present', and 'Print' options. The main menu has 'Business', 'Owners', 'Objectives', 'Solutions' (highlighted), 'Future Value', 'Funding', and 'Present/Print Options'. The central area is titled 'Explore available solutions for each owner' with a sub-note: 'Solution options are dependent upon the previously selected objectives for each business owner.' Below this, three owner profiles are listed:

- Adam Anderson, President (40%):** Solution: Entity Purchase. Warning: Changing the solution for Adam Anderson will remove the life insurance policy needed to fund the solution.
- Betty Boston, Vice-President (35%):** Solution: Unilateral Buy/Sell. Warning: Changing the solution for Betty Boston will remove the life insurance policy needed to fund the solution.
- Carl Cannon, Treasurer (25%):** Solution: Cross Purchase. Warning: Changing the solution for Carl Cannon will remove the 2 life insurance policies needed to fund the solution.

The next screen deals with the solution desired for each of the owners. Again, each owner is shown and then you have a drop-down of the choices of solutions. The solutions are limited by what was the objective on the prior page depending on whether you said co-owner, non-owner or liquidate. Whether or not if it were an owner or a co-owner, a non-owner or co-owner, whether

that person was a family related or not. Based on those, the criteria, limits what's available as possible solutions. Select one of the possible solutions from the list available for that owner. Repeat for each owner.

Future Value Screen



The next screen is pretty straight forward. It's the future value years to project. Obviously you know how long each one has till retirement, how many years into the future that they're willing to look into values and discounts. You indicate the years to project. It already shows the value now based on the values that you put in for the business and then based on the rate that you indicated for the growth of the business. Based on how many years to project, it shows you what the future value would be. Typically, the business solutions consider what the values are now but also consider what they would be at a point in the future so that when a buy/sell or different solution is implemented, it's implemented at the values of the business at that time.

Funding Screen

Compare different methods to fund each owner's solution

Life Insurance
 Cash
 Borrow
 Sinking Fund

Funding with life insurance

Life insurance solution requires premium payments until needed, but provides the life insurance death benefits tax-free at exactly the time when it is needed. Recommended policies have been created for each owner based on their chosen solution. You can configure certain aspects of each policy including the face amount, annual premium and more.

Recommended policies to fund Adam Anderson's solution Entity Purchase

#	Policy Owner / Beneficiary	Insured	Current Amount Needed	Future Amount Needed	Initial Face Amount	Initial Annual Premium	Entry Method	
1	ABC, Inc.	Adam Anderson	\$1,866,667	\$4,029,994	\$4,000,000	\$40,699.00	Link File	Edit

Recommended policies to fund Betty Boston's solution Unilateral Buy/Sell

#	Policy Owner / Beneficiary	Insured	Current Amount Needed	Future Amount Needed	Initial Face Amount	Initial Annual Premium	Entry Method	
1	Family Member	Betty Boston	\$1,633,333	\$3,526,243	\$3,500,000	\$41,100.00	Link File	Edit

Recommended policies to fund Carl Cannon's solution Cross Purchase

#	Policy Owner / Beneficiary	Insured	Current Amount Needed	Future Amount Needed	Initial Face Amount	Initial Annual Premium	Entry Method	
1	Adam Anderson	Carl Cannon	\$622,222	\$1,343,331	\$1,350,000	\$10,163.00	Link File	Edit
2	Betty Boston	Carl Cannon	\$544,444	\$1,175,414	\$1,200,000	\$9,041.00	Link File	Edit

The funding tab at the top compares the various methods for funding Business Continuation.

Note: The input screen shows the basic three generic funding methods: cash, borrow, sinking fund (or savings account). Insurance is an alternative to these three. The comparison graphs on these input screens are applicable to all of the solutions; however, the insurance is specific to the

desired solution being illustrated for each owner. The presentations—screen and print—compare the four specific methods being illustrated for each owner’s specific solution illustrated.

There are only four ways to fund any of the solutions:

Cash. Cash is nothing more than when the time comes that you need to buy out an owner's share, you use cash out of the business. The cost is exactly the value of the business interest at that time. It simply depletes the cash, liquid resources of the business, but no payment takes place until the actual sale.

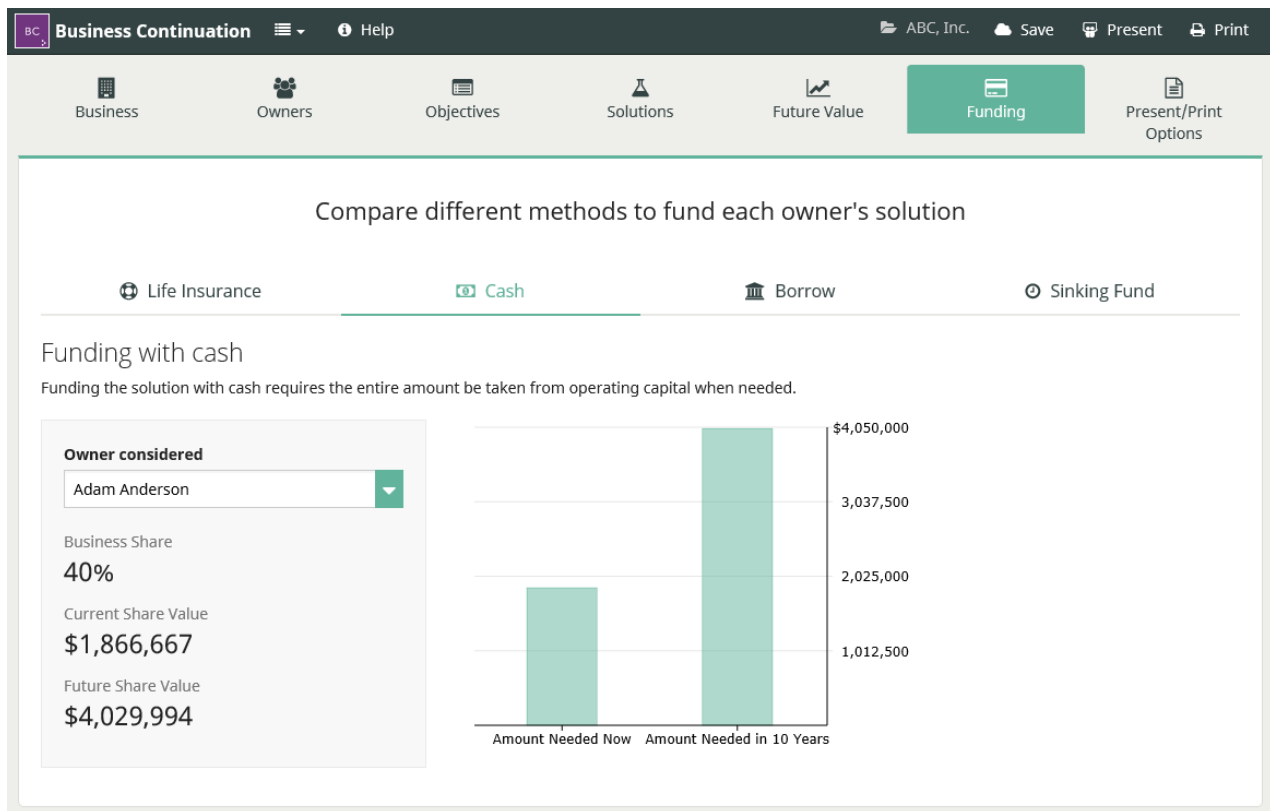
Borrow. You could borrow the money if the business didn't have the cash. To borrow the money, you would have to borrow the full amount needed. The business would then pay interest, typically to a bank, until that loan is paid off. The cost does not start until the sale, but it continues until the loan is repaid. The cost is increased by the interest paid on the loan.

Sinking Fund. Another alternative is a sinking fund. That is, to set aside funds specifically for this purpose and hope that you can accumulate the amount needed by the time the funds are needed. The sinking fund typically starts now, but since you don't know exactly when it's needed, you may fund too little, or too much. If the funds are not sufficient when needed, one of the other methods will have to be used for the remainder needed. If funds are more than what is needed, then working capital was removed from the business unnecessarily.

Insurance. All three of the above options (cash, borrow, sinking fund) have shortfalls and sometimes combinations of two must be used. An alternative to all of these would be life insurance. Life insurance, especially for death of an owner, could provide exactly the amount needed at exactly the time it's needed, the death of the owner. Funding (premium payments) starts now and continues until the death of the owner; however, these premiums have the least effect on working capital than any of the three other methods.

Note: The cash, borrow, and sinking fund tabs would be used if entering data with the client. These show a graphic presentation of how each of these three funding methods would work. If just entering the data to show the presentation to the clients later, it is only necessary to enter the necessary information for the insurance funding.

Cash Tab



On the cash tab, all the owners considered are in the drop down on the left and you can look at each one independently. It also shows what share of the business they own, the current share value and the future share value. Thus, you see exactly what it would take for the cash option. The cash amount is the amount needed now, which is the current value, and the amount needed in X years. (The number of years entered to show future value of business.) Hovering the mouse over either one of the bars in the bar graphs will show the value.

Borrow Tab

Business Continuation | Help | ABC, Inc. | Save | Present | Print

Business | Owners | Objectives | Solutions | Future Value | **Funding** | Present/Print Options

Compare different methods to fund each owner's solution

Life Insurance | Cash | **Borrow** | Sinking Fund

Funding by borrowing

Funding the solution by borrowing the needed funds requires payments equal to the funds needed PLUS interest be pay for the years immediately following the year needed.

Assumptions

Duration: 7 years

Interest rate: 7%

Owner considered: Adam Anderson

Business Share	Current Share Value	Future Share Value
40%	\$1,866,667	\$4,029,994

Assumptions are used to calculate the total loan payments for *all* owners.

Bar Chart Data:

Category	Value
Loan	1,866,667
Total Payments	2,450,000

You can enter the duration of the loan and what the projected interest rate for the loan will be. Again, you can look for each owner's cost comparison. It shows the loan and then the total payments. Clicking on the loan you'll see the amount and then the total payments of paying that amount off.

Sinking Fund Tab

Compare different methods to fund each owner's solution

Life Insurance
 Cash
 Borrow
 Sinking Fund

Funding with a sinking fund

The sinking fund solution requires annual payments starting now until the year needed. Without knowing the year it will be needed, this method may not provide enough funds.

Assumptions

Owner considered: Adam Anderson

Business Share: 40%
 Current Share Value: \$1,866,667
 Future Share Value: \$4,029,994

Interest rate: 6% Tax bracket: 35%

Annual deposits necessary to have **\$1,866,667** at the end of period.

End of period	Without considering taxes	With taxes
Today	\$1,866,667	\$1,866,667
1 year	\$1,761,007	\$1,796,600
5 years	\$312,396	\$332,365
10 years	\$133,604	\$150,336
15 years	\$75,658	\$90,393
20 years	\$47,872	\$60,962

Assumptions are used to calculate annual deposits for all owners.

You can enter an interest rate along with the tax bracket and it basically shows you how much you would have to set aside each year in order to fund the desired amount for different periods of time. Again, we don't know when someone will die although we could project when they might retire. Use the sinking fund for that amount. As you see, the longer the funding period, the less you have to save each year. But, if you need it before that time, you'd have to supplement the sinking fund with either cash or borrowing.

These three methods (cash, borrow, sinking fund) show you that funding business continuation, the value of a deceased owner's share at his death or retirement or disability, can be very expensive and can drain the business of its working capital.

Life insurance Tab

Compare different methods to fund each owner's solution

Life Insurance
 Cash
 Borrow
 Sinking Fund

Funding with life insurance

Life insurance solution requires premium payments until needed, but provides the life insurance death benefits tax-free at exactly the time when it is needed. Recommended policies have been created for each owner based on their chosen solution. You can configure certain aspects of each policy including the face amount, annual premium and more.

Recommended policies to fund Adam Anderson's solution Entity Purchase

Policy Owner / # Beneficiary	Insured	Current Amount Needed	Future Amount Needed	Initial Face Amount	Initial Annual Premium	Entry Method	
1 ABC, Inc.	Adam Anderson	\$1,866,667	\$4,029,994	\$4,000,000	\$40,699.00	Link File	Edit

Recommended policies to fund Betty Boston's solution Unilateral Buy/Sell

Policy Owner / # Beneficiary	Insured	Current Amount Needed	Future Amount Needed	Initial Face Amount	Initial Annual Premium	Entry Method	
1 Family Member	Betty Boston	\$1,633,333	\$3,526,243	\$3,500,000	\$41,100.00	Link File	Edit

Recommended policies to fund Carl Cannon's solution Cross Purchase

Policy Owner / # Beneficiary	Insured	Current Amount Needed	Future Amount Needed	Initial Face Amount	Initial Annual Premium	Entry Method	
1 Adam Anderson	Carl Cannon	\$622,222	\$1,343,331	\$1,350,000	\$10,163.00	Link File	Edit
2 Betty Boston	Carl Cannon	\$544,444	\$1,175,414	\$1,200,000	\$9,041.00	Link File	Edit

Life insurance is one of the best solutions since it provides the desired amount at the desired time, the death of the owner. Based on the solution chosen for each owner, this tab shows the amount

of life insurance needed on the life of each owner to fund the desired solution. The policy owner pays the premiums and should be the beneficiary of the policy.

How the amount of life insurance is determined. A cross purchase solution requires the most policies. In a cross purchase, each owner has to buy a portion of the deceased owner's interest. Thus, you'd have to have one policy less than the number of owners just to fund one owner's death. One advantage of Business Continuation is that it calculates the amount of life insurance needed in each situation. For example, in a cross purchase, if we had five owners, one owner owning fifty percent, one with twenty percent and three with ten percent each, making up the 100 percent of the business distributed among these five shareholders.

Funding can be based on the current value of the business or on the projected future value of the business. Of course, it's preferable to fund the future value of the business. To help with this both the current and future values are shown and the amount needed. Again, one advantage of Business Continuation is that, based on the solution that the owner desires, the policies to fund that solution are automatically calculated and shows who the policy owner-beneficiary is, who the insured should be and what the amount should be.

Some owners may have specific wishes as to the business ownership after their death. However, most owners desire that if one owner dies the surviving owners will end up with the same proportionate ownership as they had among themselves before the owner's death.

For example, suppose one owner that owned fifty percent dies. The other four, one shareholder owning twenty percent and the other three owning ten percent, want to buy his stock in such a manner that each of them will have the same ownership relationship to one another. The program would automatically calculate and show you the right amount for this situation. (One would purchase 20/50 or 40% of the deceased owner's 50% interest. Each of the other three would purchase 10/50 or 20% of the deceased owner's interest. After the purchases, one would own 40% and each of the other three would own 20%.) With these amounts, the ownership after

applying the cross purchase agreement and exercising interest, each surviving owner would have the same ownership relationship to each other as they had prior to the deceased owner's death. Of course, the difference would be that now the surviving owners own 100 percent of the business.

These calculations can be rather tedious. Business Continuation allows you to enter up to 9 owners and then, even if all of them chose cross purchase, will illustrate exactly how all 72 policies being used should be purchased. The calculations needed to make sure everyone has the right amount in the right policies is quite involved. Business Continuation makes that very easy.

Entering life insurance policies to be used. By selecting the edit life insurance button, the screen then shows you the owner, beneficiary of the policy and who the insured is. It shows what amount would be needed using the current business value and what amount would be needed if the future business value were used. Keep in mind, we don't know exactly when death will occur, so we don't know which of these values to use. These amounts are used as a guide. Often, the policies might even be rounded, figuring that corporate cash would be used to make up the difference or the individuals would use their personal cash to make up the difference.

Each of these policies can be entered in one of three ways (click the drop down to see the three methods):

Enter face amount and annual premium. Enter the initial face amount of the policy, the annual premium and the number of years to pay the premium. The value whenever death occurs will be used and illustrated in the ledgers. This is the quickest and simplest way to enter a policy values.

Enter schedule of annual values. Manually enter the schedule of annual values for Premium, Net Death Benefit, Net Cash Value, Loan, and Withdrawal. Simply run the illustration for the desired vendor and, with the ledger, then transpose those numbers into

the schedule. Since most software illustrations look at the calendar year, we prompt for the end of year and age they'd be at the **end of each calendar year**. You need to coordinate and make sure you're putting the right values for the right years into the schedule. Simply run the illustration for the desired vendor and, with the ledger, then transpose those numbers into the schedule.

Premium. Enter the premium in the first column. Tabbing will take you down the column to the next year. If the premium is the same for a number of years, use the “Copy down” button to duplicate the value down to the end of the schedule. If the premium changes or stops after say twenty years, simply scroll down to the 21st year, enter zero, and then copy down.

Net Death Benefit. In case loans or withdrawals are used, you have dividends accumulating or buy paid up editions, this is the net death benefit for each year and again you enter that amount. If the amount is the same for a number of years, you can simply hit copy down and it will take it all the way to the bottom. You then scroll down to the next year that it changes or tab down if it's one year at a time and enter the value from that point forward so that you can quickly enter all the values.

Then you come over to the net cash value and again recommend that you put in the net cash value. This is the net of any loan repayments, net of any withdrawals made. This is the net value at the end of each calendar year. Then go down and put any loans paid in a particular year or any partial withdrawals made in a particular year. The reason that you do both loans and withdrawals, sometimes the loan obviously you're going to have the loan interest to be paid and the loan balance coming off the net death benefit so the loan requires interest but, at the same token, the loan is received income tax free.

Withdrawals. Withdrawals are basically, up to the sum of the premiums, tax free.

Subsequent to that, then any relative gains would be taxed. Match up your illustration with

the ledger and enter the values for each corresponding year. The Copy down function can be used the same way as in other columns.

After you finish the illustration and enter all the information into the schedule, you will need to “Save changes” before you proceed in order for your entries to be retained. If for any reason you want to clear the schedule and start over, click the “Clear schedule” button.

Load illustration from link file. Some companies use their illustration system to produce a link file that contains all the policy values, just like the schedule we just entered, that can be loaded into the software. To load a link file, select “Load illustration from link file” in the drop down and then “Select link file” button. Select the appropriate saved link file from your computer. Once it is loaded, it will open into your schedule where you can see all the values. This would be the quickest way to enter all the values from a policy and everything will be entered appropriately.

Important Note: Whether you use the schedule, the linked file, or enter the face amount and premium, you should always attach a copy of the company provided illustration with the presentation from Business Continuation so that your illustration is in compliance.

Enter each policy to be illustrated. Continue entering policies until all are entered and complete. Please note, it is important to **decide what solution you want to illustrate before entering a schedule or link file.** If you go back and change the solution or change the ownership, the insurance will be cleared and you will have to reenter the insurance. There are so many different solutions and combinations, if you change any of those you will need to reenter any policies for those. As you work your way through the tabs, it is best to determine the solutions to illustrate before entering the policies.

Presentation Screen

The screenshot shows the 'Business Continuation' software interface. At the top, there is a dark header with the 'BC' logo, 'Business Continuation' text, a menu icon, and 'Help'. On the right side of the header, it says 'ABC, Inc.', 'Save', 'Present', and 'Print'. Below the header is a navigation bar with icons for 'Business', 'Owners', 'Objectives', 'Solutions', 'Future Value', 'Funding', and a highlighted 'Present/Print Options' button. The main content area is titled 'Customize the presentation and print report'. Below this title is a box with 'Show options for...' and two buttons: 'Present' and 'Print'. The main area is divided into two columns. The left column is titled 'Presentation Summary' and lists categories: 'General' (Introduction), 'Business' (Total Values Today, Business Valuation), 'Adam Anderson' (Considerations, Entity Purchase — How it Works, Funding Alternatives Comparison, Action Plan), 'Betty Boston' (Considerations, Unilateral Buy/Sell — How it Works, Funding Alternatives Comparison, Action Plan), and 'Carl Cannon' (Considerations, Cross Purchase — How it Works). The right column is titled 'Presentation Options' and shows a list of items with green checkmarks: 'General' (Introduction), 'Business' (Total Values Today, Business Valuation), 'Owners' (Adam Anderson, Considerations, Entity Purchase — How it Works, Recommended Policies, Funding Alternatives Comparison, Action Plan), 'Betty Boston' (Betty Boston, Considerations), and 'Carl Cannon' (Unilateral Buy/Sell — How it Works). At the bottom right of the interface is a 'Previous' button with a left arrow.

On the presentation tab, you have two choices; Present and Print. **Present** displays the Slideshow Options available for an on-screen presentation and **Print** displays the Print Options available for a printed presentation.

Screen presentation. Click on “Present” to display the slideshow options and a menu with all the choices for all the various page combinations applicable to the presentation information entered up to this point. As each slideshow option is checked, the selected page(s) is added to the Slideshow Summary on the left side of the screen, allowing you to create the presentation just like

you want to present it. Typically, it is best to do this ahead of time so that the screen presentation is ready to be presented to the clients.

The presentation can be for any one owner or any combination of owners. This is especially useful if you're showing it to just one or two of the owners and you do not want to include information about other owners at that time.



At the very top, on the right side of the black bar, there is a **Save**, **Present**, and a **Print** command. If the current case and all changes have been saved, the Save button appears inactive or greyed out. It is best to save your changes often. All saved cases can be retrieved from the Dashboard.

Present. Select Present and a screen presentation will be shown, using the pages previously selected.

Helpful hints on the presentation. Select more controls to see how to use the left/right key or left/right swipe. This is especially helpful on a tablet. To hide the menu bar and view the presentation on full screen mode, press the “f” key and that toggles between full screen on and off. There is also a button to select or de-select full screen.

The “eye” button toggles these controls on and off. These controls sometimes distract the client, so hiding them help to keep their focus on the presentation. This is very useful on the tablet.

The on-screen presentation gives you a screen version of the printed presentation. The screen is a different shape than the print so it's laid out slightly different but contains the same powerful information.

Clicking on any bar in graphics shows its value and exactly how that bar was calculated.

The screens show a variety of helpful information to share with the clients, but are arranged so that you control these as the presenter.

Animation. The animation illustrates the solution that you're presenting and is an excellent way to help inform clients and illustrate how a solution works. To make it even more helpful, click the question mark beside the steps to display details of exactly what each step is doing.

One of the really nice parts about Business Continuation is that all the various solutions are using the same type of image to illustrate the animation, so you see exactly how one solution varies from another; who is buying the insurance, where the proceeds are paid, who buys the interest and where the stock ends up. Very, very helpful for the clients to understand the difference between various business solutions.

Next, get a summary of the recommended policies to implement a particular solution. Remember, this is determined by the solution being shown. If the solution is a cross purchase, there might be a number of policies purchased. This shows exactly who the owners should be, who the insured is, what the need will be now, whether you're using the future need or the current need, and the premium and face amount is. Everything you need is right there showing the details of what to buy for each owner.

Comparison graphs. Comparison graphs show a summary of the cost of each funding method (Cash, Borrow, Sinking Fund, and Life Insurance). These comparisons are adapted to each owner and/or policy being illustrated.

Sinking Fund Assumptions. The same money paid for the premiums would go into a savings account and at death, if that was not enough money with interest, then cash would be used for the difference. This will answer the question, "What happens if no insurance is

purchased and the premiums are saved instead?” Typically, purchasing the insurance is a much better option.

Insurance and Cash. In case they did not buy enough life insurance to cover the entire amount needed, the balance is made up of cash. You get a very fair comparison of all the four alternatives. It then shows the funding alternatives for each of the policies.

Action Plan. An action plan shows how to put everything into effect.

Repeated for each owner to be presented. If you are presenting multiple owners, the same powerful presentation will be shown for each.

Keep in mind, each owner could have a different solution. A unique advantage of Business Continuation is, when you show the animation of how it works, it will all be basically the same type of diagram. The arrows and the steps differ for each solution but the main components stay in the same place. Great for a large conference room viewing, tablets or iPads.

Printed Presentation. The printed presentation can be used to present to the clients or as a leave-behind. Impact’s recommendation is that, even when you're preparing and using the on-screen presentation, use the printed presentation to leave with the client(s) so they can review the presentation later.

You can also include a considerable number of additional resources pages including alternative solutions and how they work. Additional resources selected will appear at the end of the presentation.

Business Continuation rearranges the owners entered based on the percent of ownership (highest to lowest) and is displayed in that same order in the printed presentation.

The printed presentation also includes a graph comparing the different methods to fund each owner's solution (Cash, Borrow, Sinking Fund, or Life Insurance); Using insurance to fund the buy/Sell, using the sinking fund, borrowing and what the net present value of each of these methods is worth. For example, the life insurance shows the death benefit, the annual premium of what you paid and what the business value is.

Sinking Fund. Assumes that you've paid in the premiums to the sinking fund and earned interest, so the cumulative value in the sinking fund is what the premiums would have grown to.

Borrowing. Borrowing is waiting until death and then borrowing at the rate shown. The net present value of the borrowing as the cost per dollar is a very interesting calculation. It shows exactly what each dollar cost. We know that if you wait and pay cash, each dollar costs one dollar at that time; however, if you take the value of that one dollar when buying life insurance and the sum of the premiums paid, you see that sometimes you are really only paying pennies for dollars.

Each of the funding methods occurs at a different time(s). The present value of each makes it easy to compare the costs of each method.

Borrowing usually costs more than a dollar for each dollar of business interest bought. Insurance usually costs less than a dollar for each dollar of business interest brought.

Action Plan. Both the on-screen and printed presentation ends with an Action Plan that shows exactly what the steps are to implement the solutions presented. Each action has a check box to indicate each point but, more importantly, so that they can be checked off as they are completed. This helps to get a commitment from the client to do the next step and to get the plan implemented. **A Business Continuation plan does not do any good unless it's actually put into effect.**