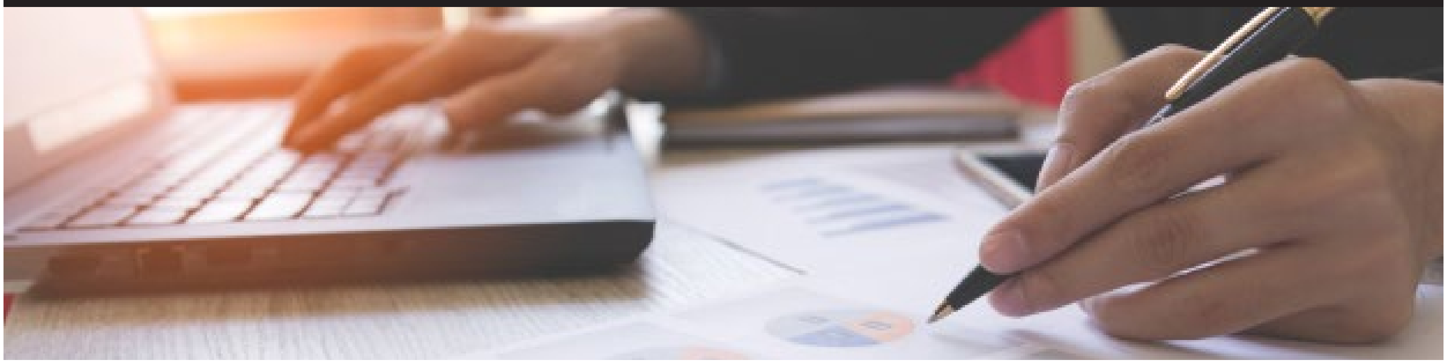

I Want to Diversify My Net Worth, But I Am Not Ready to Sell My Company

Even after so many years of serving as CEO of your closely held private or family owned business, you find that you still experience great satisfaction and personal motivation from leading the strategic direction of your company. You have asked and answered the important question of whether or not you are ready for an ownership transition - and your answer is a resounding: "NO"! You have invested time and energy, weighed all options carefully, and determined that there is so much potential yet to achieve. While you remain "All-In" with your company, however, you may find that your mind is not quite truly at peace just yet.

Over the years your business has grown to have considerable value and has become your largest personal asset. While the financial wisdom that you have acquired from your peer CEOs and trusted advisors guides you toward the importance of diversifying your net worth, right now your golden eggs are all tied up in one basket. What are your options? For a well-established company, a leveraged dividend recapitalization or "dividend recap" can be used by business owners desiring liquidity from their private company but who also are not yet ready to sell. The dividend recapitalization is accomplished by proceeds from a new loan being used to pay a special dividend to its owner(s). The result is a balance sheet restructuring, where the company's liabilities are increased and where equity is reduced.

Candidates for a dividend recap have a relatively debt-free capital structure, steady cash flows, and an experienced capable management team. Typically, companies undertaking these transactions are mature where growth is slowing and they do not require substantial ongoing capital expenditures to remain competitive.

A leverage dividend recap is used to not only provide owner liquidity but can also be used as a means to employ debt's disciplinary effect to improve performance, thus increasing shareholder value. A key indicator of whether leverage is having the desired disciplinary effect is the post-recap balance sheet progress. When successful, the overhang of the new debt obligation galvanizes management to improve operational performance, reduce discretionary spending on unnecessary or excessive expenditures, and generate additional cash flow to pay down the debt.

A disadvantage associated with a dividend recap is the risk incurred from the new debt. In considering a recap, the company must ensure that its cash flows are sufficient to cover the new debt payments. In order to meet its debt obligations, a highly leveraged company needs steady and predictable cash flows. A company that encounters cash flow problems jeopardizes its future operations and may be forced to sell assets. Therefore, following a dividend recap, management should focus on the fundamentals of the business, selling underperforming assets, and paying down debt quickly.

Most owners of closely held private or family owned corporations do not think about using reasonable leverage as a tool to provide personal liquidity in order to achieve the needed asset diversification. The leveraged dividend strategy is commonly used by private equity groups and public companies, but can also be an effective tool for the closely held family business owner depending upon the strength of the company's financial circumstances.

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