

Starting the Conversation:

# The Business Owner's Playbook

A guide to  
protecting your  
business, growing  
your assets and  
planning for  
your future.



Dear Reader:

As a business owner, you're focused on whatever it takes to make your business successful, whether it's getting your product right, attracting and retaining the best employees, making sure your marketing efforts are on target, or any of the other decisions you make to protect and grow your business.

The many demands of running your company may leave you with little time to focus on important financial and insurance matters that can have a great impact on your business, your family and your future.

This *Business Owner's Playbook* is intended to help you identify and address the important issues to consider and the types of advisors – attorneys, accountants, insurance agents, financial professionals and others – who can provide more specific guidance based on your particular circumstances.

Throughout this guide, we suggest conversation starters for you and your advisors, as you strive to make the best use of the time you spend with the professionals guiding you along your journey.

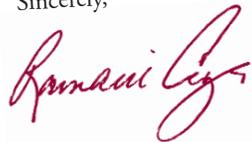
Because your needs will vary as your company grows, we have divided this guide into chapters aimed at the three primary stages in the life of a business:

- The Emerging Company
- The Growing Company
- The Transitioning Company

Whatever stage your business is in, this guide highlights issues you're likely to face inside and outside the workplace. We have provided practical examples, resources and tools that illustrate the opportunities and solutions available to business owners like you.

We know the most important business issues are the ones that affect you – your company, your employees and your personal financial health. We trust that you will find the *Business Owner's Playbook* a valuable tool that will keep your journey a successful and rewarding one.

Sincerely,



Ramani Ayer  
Chairman and CEO  
The Hartford Financial Services Group, Inc.



# Table of Contents

---

<b>The Emerging Company</b> .....	3
Finance .....	4
Compensation & Benefits .....	6
Insurance .....	7
Your Life, Your Future .....	10
Your World .....	12
<b>The Growing Company</b> .....	15
Finance .....	16
Compensation & Benefits .....	18
Insurance .....	20
Your Life, Your Future .....	24
Your World .....	26
<b>The Transitioning Company</b> .....	29
Finance .....	30
Compensation & Benefits .....	32
Insurance .....	33
Your Life, Your Future .....	34
Your World .....	36
<b>Additional Information</b>	
Structuring Your Company .....	38
Business Resources on the Web .....	39



#### **Conversation Starters**

This symbol indicates the key questions you should be asking yourself – and your advisors – at the beginning of each section.



#### **Consider This . . .**

This symbol indicates important suggestions to help you manage your business and personal financial picture.

These materials provide general information, and should not be construed as specific financial, insurance, tax, legal, or accounting advice. You should consult a qualified advisor for individual guidance in these matters. Please see back cover for additional important information.



# The Emerging Company

## *The Topic of Conversation: Important Questions and Steps to Consider as You Start Out*

**Questions.** You may have many in your head as you embark on the journey of running your own business. Whether you're thinking about funding or compensation, taxes or insurance, this section will help you find answers and identify the types of advisors with whom to have these conversations.

Congratulations. You've made one of the most important – and one of the most difficult – decisions of your life: to pursue your business dream. This guide is intended to help you to start having the right conversations – with the right advisors – to help you increase the odds of your success.

No doubt there are many questions at this point. Why did you start your business? You may have seen an opportunity to make money by serving a market with potential that is not being served adequately by others. Or, it simply fulfills a dream. Whatever the reason, now is the time to ask these important questions. And, it's also the right time to find the right experts to help guide you along this journey.

These questions will help you determine the types of advisors you'll need.

### **Important Questions**

- What needs to happen before your business will be strong enough to give you a decent living, and how long will it take to get to that point?
- How much money does your business need to operate, and where will it come from, before the business is self-sufficient?
- Do you need financing, and where will you get it?
- Can you operate the business alone or do you need a partner or employees?
- What compensation and benefits must you offer to attract the employees you need?

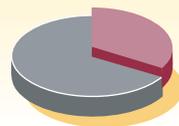
Your answers to these questions will help you plan for short- and longer-term needs – for your business and your own personal finance goals. While advisors are important to help with business finance, they're equally (or more) vital to your own personal financial health.

The right conversations with the right advisors are crucial at this stage. They can help ensure that you keep the right focus on your personal and business goals and success.

### **Seeking Advice**



Nearly half of small business owners wish they had more time to focus on personal financial planning.



That said, only one-third rely on advisors to help make such significant personal finance decisions.

Source: The Hartford Business Owners Survey, October 2006

# Finance



## Conversation Starters

Help your advisors help you by asking them . . .

- How do I best structure my company for success?
- How do I estimate start-up expenses and identify sources of funding?
- Do I need to separate personal and business finances to limit personal risk, including legal and tax risk?
- How do I plan for cash flow crunch times and major contingencies?

A business owner's first consideration is usually very straightforward – what type of company do I want to create? Are you in business by yourself, or do you have co-owners? Are these partners in the family? Structuring your company will have a significant impact on your taxes, planned financing, compensation, insurance, etc.

### Different company structures

*(more detailed information on these can be found on page 38)*

#### Sole Proprietorship

Individual or married couple. Business income is taxed as personal income and is subject to self-employment tax.

#### General Partnership

Two or more owners (who aren't a married couple). Set-up costs are minimal with no state fees or documentation, and business proceeds are taxed as the partners' personal income.

#### Limited Partnership

Similar to a general partnership, but has two classes of partner: limited and general. Limited partners' liability is based on the percentage of their investment; the general partner(s) bears remainder of the liability and is responsible for day-to-day operations.

#### Corporation

A corporation is a legal entity with a charter granted by the state in which it is headquartered. It can sell shares of stock to raise money; shareholders become part-owners based on the size of their investments. Either an S or C corporation.

Start-Up Costs Worksheet			
One-Time Costs		Monthly Costs	
Fixtures & Equipment	\$ _____	Salaries	\$ _____
Remodeling	\$ _____	Rent	\$ _____
Legal Fees	\$ _____	Utilities	\$ _____
Licenses & Permits	\$ _____	Telephone	\$ _____
Computers & Software	\$ _____	Postage/Delivery	\$ _____
Transportation (e.g., vans)	\$ _____	Advertising/Promotion	\$ _____
		Insurance	\$ _____
		Taxes	\$ _____
		Maintenance	\$ _____
		Inventory	\$ _____
<b>Total One-Time Costs</b>	<b>\$ _____</b>	<b>Total Monthly Costs</b>	<b>\$ _____</b>

#### Limited Liability Corporation

A hybrid entity that shields owners' personal assets from business liability, but allows the returns they earn to be taxed once, as personal income.

You'll want to speak to an advisor when determining your business structure, especially an attorney or accountant. Also remember that you're not locked into one business entity for the life of your business.

### Calculate the cost of your start-up, for both you and the business.

Emerging businesses might not see income for a while, and you as owner, might not be able to write yourself a paycheck right away. It's critical to determine your essentials – which things you can give up in the short term (e.g., vacations) and which are those things you absolutely need, both for your life and for the business.

The myriad costs during this phase can be daunting. It's important to establish a checklist of business essentials – and try to keep to that guide. The checklist will allow you to present an accurate picture to the advisors with whom you will meet.



### Pay Yourself Back Any Start-up Costs

*If you've borrowed from your own assets to start your business or to cover an emergency, remember to pay yourself back. Maintain accurate records and don't let it escape your memory. Once the business is operating smoothly and profitably, start paying yourself back. Your accountant can work with you to determine an affordable amount of money to put away each month for contingencies, and to help you keep track of paying yourself back.*

## Business = Assets



More than half of business owners agree that their business is their greatest personal asset and the primary source of family income.

Source: The Hartford Business Owners Survey, October 2006



### Take steps to protect personal assets.

Are you “betting the farm” on your new business? It’s good to be passionate and optimistic, but it’s unwise to sink all of your personal assets into your new business, especially if you have dependents. The size of your personal investment will depend on what you have to spend (savings, inheritance and spousal support) and how much debt you can assume. Some entrepreneurs have used credit cards or home equity loans, or borrowed against insurance policies or retirement funds, but these sources put your personal assets at risk. Talk to your accountant about a wise amount of personal assets to use, based on your individual situation.

Remember the difference between equity and debt: equity is money you (or someone else) puts into the business in return for an ownership stake, while debt is money you borrow to put into the business (which you pay back with interest).

### If you need more start-up funds, consider friends and family financing.

Family and friends are often the small business start-up’s first choice. Professional lenders, venture capitalists and other investors are usually not interested in start-ups; they prefer a business with a track record, but family and friends can provide you with invaluable capital. Family and friends financing can, however, be fraught with potential complications, so it’s best to approach carefully. Many entrepreneurs favor a debt-and-equity approach: family and

friend funders become both minority-stake owners and lenders, so their eventual compensation, if any, will be based on both concepts. However, take care to explain to them the risks associated with investing in a small business. It’s worth the money to have a lawyer draft your agreement with friends and family investors.

### Investigate other funding sources.

Look into government- and organization-backed loans and grants. (See chart below.)

### Plan for cash flow crunches.

Setting aside precious capital might seem like the last thing you can afford to do during start-up,

but every new business needs a source of funds to cover contingencies. You’ve already calculated bottom-line personal and business expenses; work with your accountant to figure out what you’ll need for a three-month emergency fund.

### Home Equity Line of Credit

If you can’t come up with all the cash, you can apply for a home equity loan or personal line of credit. Unlike loans, lines of credit make it possible to borrow money when you need it; you don’t pay interest until you actually borrow the funds. Don’t wait until you’re desperate; apply now, when your finances are stable and it is easier to qualify.

Shop around, as interest rates vary. And read the fine print, because low promotional interests might be valid for a limited time only. Try not to tap your home equity line unless you’re facing a real emergency.

### Your 401(k) Retirement Plan

Another source of emergency funding might be your 401(k) retirement plan from a previous job, or if your spouse has one. Read the fine print; borrowing from one can incur penalties. For more information on 401(k) borrowing, you can visit <http://www.irs.gov/retirement/participant/index.html>. However, it’s important to keep in mind that Congress gave favorable tax treatment to 401(k) plans so that employees would have something other than Social Security when they retired. If you tap your retirement funds for your business, and the business fails, what will you have for retirement?

### Avail yourself of potential tax advantages.

You might think you have nothing to deduct at this stage of the game, but you’d be surprised. Talk to your accountant about the many legitimate business deductions available to you: office equipment and supplies, phone, Internet, postage and delivery and the like; the cost of producing your product or service – marketing, distribution, payroll, retirement savings (see *Your Life, Your Future*, later in this section) and more.

## Additional Funding Sources

### U.S. Small Business Administration ([www.sba.gov](http://www.sba.gov))

- Assists and protects the nation’s small businesses; while not a lender, it facilitates programs that can help emerging companies get funding:
  - **SBA Basic Loan Guaranty Program:** SBA acts as guarantor of loans made by banks and other lending institutions after carefully reviewing the borrower’s business plan and assets.
  - **Certified Development Companies:** SBA-certified nonprofit that aids local economic development. Each CDC works with commercial lenders to create financing packages for small businesses.
  - **Micro-loans:** SBA-designated nonprofit lenders who offer loans up to \$35,000 for inventory, equipment and supplies (but not debt repayment or real estate).
  - **Small Business Investment Companies:** Licensed by the government to act as venture capital firms for small businesses.

### State Economic Development Agencies

- Check with your own state’s agency; it may have helpful financing programs.
- Also look into the **U.S. Commerce Department’s Economic Development Administration** ([www.eda.gov](http://www.eda.gov)).

### Minority and Women’s Business Development Groups

- Various agencies and organizations that promote businesses owned by women and members of minority groups. The U.S. Department of Commerce operates the **Minority Business Development Agency** ([www.mbda.gov](http://www.mbda.gov)).

# Compensation & Benefits



## Conversation Starters

Help your advisors help you by asking them . . .

- How do I set up a plan to reasonably compensate myself during start-up?
- Can I establish a benefits policy during the start-up period?
- How can I find tax deductible expenses that will help my business grow and enhance my life?

*Different healthcare options are discussed on the next few pages, as well as in **The Growing Company** on page 19.*



### Compensate yourself reasonably.

Your company earnings might not allow you to pay yourself at start-up, and if you have sufficient personal reserves or a working spouse who can bear the burden during this period, forgoing a paycheck may be your only choice. But understand that by skipping your own payday, you are shielding your business from a basic expense: compensating the owner. If you can, set up a token salary for yourself; review this figure periodically with your accountant and raise it as your business becomes able. Your goal is to eventually compensate yourself in keeping with standards for your industry, or better. If the business cannot pay you for a period of time, have the business write you an I.O.U. saying you've skipped a paycheck as a loan to the company, and pay yourself

back when business improves. The most important step is to talk to your accountant or attorney about a strategy and any tax implications.

Another alternative is to pay yourself a special payment, whenever the business can afford to do so. These are taxed as regular income. Just be sure that your business can afford it; don't base it solely on sales volume (which might carry with it increased costs coupled with negative cash flow). And make sure that you record all such transactions, as well as any missed or token paychecks and personal funds channeled into the business; if investors are involved in your business and they raise questions, you'll have all the documentation you need to provide answers. Again, your accountant or attorney is the one to turn to here.



### Employee Compensation Plans

*If your start-up business has employees, you'll want to develop an affordable, fair and consistent compensation plan for them when you draw up your business plan and project expenses. Speaking to your **accountant** will provide you with more control of your payroll costs right from the start, and you'll avoid the morale-busting issues that a haphazard compensation plan can provoke.*



### Employee Health Insurance at This Point?

*Speak to an **insurance professional** about health insurance, as it takes on added importance with employees. A good plan is often an important tool to recruit and retain top candidates. If you can't yet afford health insurance for your employees, offer to subsidize the cost of enrollment in a spouse's plan. Or make a company plan more affordable by splitting the cost of premiums with them. Keep in mind that any benefits you provide can yield tax advantages for the business – and higher morale and productivity for your employees.*

The Emerging Company

# Insurance

## Conversation Starters

Help your advisors help you by asking them . . .

- What type of coverage do I need to have in place at this time?
- What coverages are required by law, by lenders and/or customers?
- How do I add affordable coverage for me and my employees?
- Do I need specific coverage for doing business with major corporations?
- How can I avoid claims and higher premiums that accidents and injuries can create?

### Insurance Decisions



Nearly 40 percent of small business owners find it difficult to prioritize insurance options through the various stages of their business development.

Source: The Hartford Business Owners Survey, October 2006

Regardless of the stage of your business, having the right types of insurance coverage is vital to protect the business you are building and safeguard you and your family along the way.

### Protecting your business and personal assets.

Some coverages are required by law; other types of insurance may be required by a lender or a customer with which you wish to do business. Others are essential for protecting you and your family's health and livelihood. In every case, you should view insurance as a strategic asset. You need to understand your exposure, review all of your business assets and have an in-depth consultation with your advisors to determine the appropriate coverage. An insurance professional can be extremely valuable here, but you might also want to involve your accountant or your lawyer. They'll have insights into how much and what kinds of risk you face—and they can often recommend a good insurance agent.

### Be sure you have coverages mandated by law.

Workers' compensation insurance is a legal requirement in most states, if you have one or more employees. This coverage pays for the medical, pharmaceutical and other healthcare costs of employees' work-related injuries, as well as a portion of the worker's salary while out of work. Workers' compensation coverage is not a substitute for health insurance, as employees are only covered for work-related injuries. Failure to purchase coverage when it is required can result

in severe penalties; these punishments can range from fines of \$10,000 to one-year prison terms to STOP WORK orders. It's important to talk to your insurance professional to make sure you have the right coverage.

Workers' compensation premiums are based on many factors, including your industry, the number of employees you have and your company's safety record. It's important to work with your insurance agent to be sure your employees' jobs are rated properly, as higher-risk classifications carry higher premiums.

### Don't neglect healthcare coverage (for you).

Health insurance can seem like a costly extra expense to a healthy entrepreneur managing all the costs of a start-up. But when you consider the impact to you, your family and business if you were to become ill or injured, it's clear that some type of health insurance is essential; obtain it through a working spouse, extend

coverage through COBRA (if available through current coverage) or purchase a high deductible major medical policy to cover catastrophic illness (will keep your premiums low, but you should expect to cover routine doctor visits and other medical out-of-pocket expenses).

Professional and trade organizations can also offer another cost-effective way to get group health insurance. Ask about a consumer-driven health plan, which has higher deductibles but enables you to pay for out-of-pocket medical expenses with pre-tax dollars, while also allowing you to accumulate pre-tax money for future medical expenses. When purchasing a health insurance policy, your insurance advisor can help you determine your best option. There are two primary types: Fee-for-Service and Managed Care. Both cover a range of medical, hospital and surgical expenses, and can also cover prescription drugs. Some may also offer dental coverage.

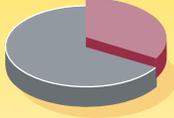
### Two Primary Types of Health Insurance

<b>Fee-for-Service</b>	These plans pay a medical professional of the patient's choice a fee for each service provided to him or her. The claim can be filed by either the medical provider or the patient.
<b>Managed Care</b>	More common and there are a range of plans that all vary slightly. Plan types include health maintenance organizations (HMOs), preferred provider organizations (PPOs) and point-of-service (POS) plans. These more comprehensive plans offer financial incentives to use providers that are part of the plan.

For more detailed information on healthcare plans, see *The Growing Company* on page 18.

# Insurance (continued)

## Disability Reality Check



Three in 10 of today's 20-year-olds will suffer a disability before reaching age 67.



75 percent of workers in the private sector do not have long-term disability insurance.

Source: The Social Security Administration 2003

*A more detailed discussion of the different types of insurance can be found in The Growing Company on page 21.*



### Know the value of disability coverage.

What would happen to your business if you became disabled? What would happen to your family, your home and other personal assets? Approximately 30 percent of all people ages 35 to 65 will suffer a disability for at least 90 days, and about one in seven can expect to become disabled for five years or more.\*

Unless your spouse or personal resources could fill the gap for what might turn out to be a long time, you would likely need disability insurance to replace your lost income. Disability causes nearly 50 percent of all mortgage foreclosures, compared to 2 percent caused by death.\*\*

As with health insurance, you can buy disability insurance through professional and trade organizations and local business groups. Look for long-term renewable, non-cancelable plans that replace at least 60 percent of your income, pay benefits until

you are 65 and include a cost-of-living adjustment. Your insurance professional can help you design a plan that best meets your needs.

### Insuring the Business: Coverages that can mean survival in the event of a liability claim or loss.

As a small business owner, you'll want to have coverage for your property. A lender may require it. You'll also want a general liability policy in the event that your

company causes injury to someone else. And you may want business interruption coverage, which is designed to replace lost income due to a covered loss that forces the business to close for a period of time. These three coverages are often sold together as a single Business Owner's Policy, also known as a BOP. Buying these coverages together is generally less expensive than buying each coverage separately. Your insurance agent can explain BOPs in detail.

## Types of Business Insurance

<b>Property Insurance</b>	Insures physical assets the business owns (buildings and contents, computer system, valuable papers, etc.) for a covered loss. There is standard coverage and more comprehensive special coverage.
<b>Business Interruption Insurance</b>	A type of property insurance that covers the loss of income resulting from a covered loss (such as a fire) that disrupts the operation of the business. This policy may also cover the expenses of operating your business from a secondary or remote site.
<b>General Liability Protection</b>	Covers your company in the event that it causes certain harm to others, whether that harm is to person and/or property. Such causes of harm might include defective products, faulty installations and errors in services provided.

\* Disability Insurance: "A Missing Piece in the Financial Security Puzzle," America's Health Insurance Plans, 2004

\*\* Health Affairs, The Policy Journal of the Health Sphere, February 2005

### Customers may require specific coverages.

If your business plan relies on your doing business with major corporations, many of them require bidders to have Professional Liability coverage, also known as “Errors and Omissions” insurance. This coverage protects the business when your action, or failure to take action in your professional capacity, results in injury or financial damage to a customer. It’s particularly important for companies with professionals who give advice, make recommendations, design solutions or represent the needs of others,



### Commercial Auto Insurance

*If you use your personal vehicles for business purposes, you’ll want to talk to an **insurance professional** about commercial auto coverage. Many personal auto policies exclude coverage if a vehicle is used primarily for business. Commercial auto insurance covers automobiles, trucks and vans used for business. Most policies also cover your business for the liability incurred when employees use their own cars for your business.*

such as attorneys, accountants, real estate brokers, consultants, software developers, ad copywriters, Web page designers, or job placement services. It typically covers the cost of legal defense plus the final judgment, up to a set amount, if the business owner does not win the case. Such policies can take time to obtain; if you are targeting major corporations as your market, work with your insurance agent to get coverage sooner, not later.

You also may want to require your own vendors and/or suppliers to provide a Certificate of Insurance, to prove that they have the proper coverages as they do business with you.

### Create a workplace safety program.

A safe workplace not only allows employees to feel safe and productive, but also keeps you in business. Taking proactive measures to prevent accidents and injuries can lower insurance claims, maintain operations, improve employee morale and reduce overall costs. (There’s

more than insurance at stake; think about the cost of recruiting and training a replacement worker.) The time to address safety is the day you open your business. Talk to your insurance advisor about specific steps you can take.



### Reduce Insurance Premiums

*Often, you can reduce the premium you pay for health or auto insurance by opting for a higher deductible, or the amount you’ll have to pay out-of-pocket before you can receive benefits against a claim. If you have cash reserves or access to low-cost funds, it may be a good idea to ask your **insurance professional** how much you can save on your premium by accepting a higher deductible.*



# Your Life, Your Future



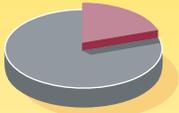
## Conversation Starters

Help your advisors help you by asking them . . .

- How do I prepare my will and a succession plan?
- How do I plan for my retirement and tax advantages at this stage in my company's life?
- How can I structure a retirement plan for myself and my employees? Can I afford it?



## Prepare for "What If"



Only one-fifth of small business owners have drafted a legal agreement detailing their company's ownership in case of marital dissolution.

Source: The Hartford Business Owners Survey, October 2006

## Plan for your own and your family's future – and the company's.

At this point, you probably aren't considering what your company will look like after you leave, but you've also come to know and appreciate the power of planning for the future.

Whether or not most of your resources are tied up in the business, your plan should include your will, and a buy-sell agreement if you have co-owners and life insurance. Either way, work with your attorney to determine how you want your assets handled in the event of your death (and also who will serve as guardian for any minor children). It should also detail how you'd like your business assets handled.

Part of your planning needs to focus on who takes over after you – if you have determined that the business will continue. Is it your spouse? A child/children? One or more co-owners? Would a key employee do the job better and would a buy-out, or partial buy-out, be preferable? Discuss all of this with family members, co-owners and/or key employees, if any, to gauge their interest in continuing the business. If there's nobody available or willing to take over the business, you can specify that the company should be sold and/or how its assets should be disposed of (assets should be listed individually). All of this should be spelled out with the help of your attorney.

## Buy-Sell Agreement

If you have co-owners, and they wish to continue the business without you, how will your family be compensated for your share? You can work with your attorney to set up a buy-sell agreement, stipulating that the surviving co-owner(s) immediately buy your share, possibly with proceeds of Key Person Insurance (see *The Growing Company, Insurance*) so that your family won't be burdened with conflicts at a later date. This kind of plan should take into account the type of business entity involved (i.e., whether it's a sole proprietorship, corporation or partnership).

**Make an effort to set aside funds for your retirement, even if your compensation is limited and your assets are tied up in the business.**

In most cases, the money you put into a qualified retirement plan (a plan that qualifies for special and generally favorable income tax treatment under the tax laws) can reduce your taxable income for the current year and the tax on any investment growth is deferred until the year you withdraw the money. So starting a retirement fund isn't just a potential boon for your future; it's a way to reduce your income taxes for the current tax year.

**Individual Retirement Account (IRA)**

There are traditional IRAs and Roth IRAs. Contributions to a traditional IRA generally are deductible on your personal income return; taxes on any investment growth are deferred, and you are taxed when and as you make withdrawals. Contributions to Roth IRAs do not reduce your current income taxes, but any investment growth is exempt from income tax if the distributions are "qualified distributions" (made after five years and age 59 1/2).

In 2007, you may contribute up to \$4,000 (\$5,000 if your 50th birthday is in 2007 or earlier) to a traditional IRA or a Roth IRA or a combination of the two, provided you have at least \$4,000 (\$5,000) of earned income for the tax year. If you are married, you may contribute an additional \$4,000 (\$5,000) for your spouse. If you are covered by another retirement plan at any time during the tax year, your deduction for contributions to a traditional IRA depends upon your adjusted gross income (AGI). If contributions to a traditional IRA are not deductible, a Roth IRA may be a better alternative, provided your AGI does not exceed the limits for Roth IRA contributions for the particular year. Check with your accountant or tax advisor.

If you want to contribute to a retirement plan for you only and the \$4,000 (\$5,000) limit is sufficient, an IRA may be your answer. You can decide how much to contribute to an IRA each year, and you can make the contribution any time before the due date for your personal income tax return (generally April 15).

To discourage withdrawals from an IRA prior to retirement, any taxable amounts withdrawn prior to age 59 1/2 are subject to a 10 percent penalty tax unless an exception applies. You cannot borrow from an IRA. However, like certain other retirement plans, IRAs may be protected from attachment by creditors depending the laws of your state. Your accountant or financial professional can assist you in setting up an IRA.



**Divorce-Proof Your Company**

*The unfortunate fact is that many marriages end in divorce. If your marriage or relationship were to go bad someday, what would happen to your business (especially if you and your spouse are co-owners)? Ask your **lawyer** what steps you can take today to protect your company. You hope it will never come to that, but if it does, you'll be prepared.*

**Protect Your Family with Life Insurance**

*Talk with your **insurance professional** about personal and business life insurance policies, from which proceeds can be used to provide for your family (especially useful if most of your assets have been invested in the company). The proceeds from a personal life insurance policy should cover your family's short- and long-term needs; they might also cover the worth of the personal assets you invested in the business. The proceeds from a personal life insurance policy can also prevent family squabbles if you've designated one person to inherit the business; the others can split the insurance proceeds. A business life insurance policy should provide cash to pay any immediate debts and help the business continue until it is stabilized under new management or sold. It can guarantee that lenders will be reimbursed.*

The Emerging Company  
Your World



**Conversation Starters**

Help your advisors help you by asking them . . .

- How can I best seek advice from key professionals?

Emerging Company Key Professionals		
Professional	Why You Need One	Additional Information
<b>Certified Public Accountant (CPA)</b>	<ul style="list-style-type: none"> <li>• Prepare taxes</li> <li>• Control cash flow for profitability</li> <li>• Prepare, analyze &amp; explain financial data</li> </ul>	<a href="http://www.aicpa.org">www.aicpa.org</a> <a href="http://www.goodaccountants.com">www.goodaccountants.com</a>
<b>Insurance Professional</b>	<ul style="list-style-type: none"> <li>• Access to multiple insurance products</li> <li>• Analyze and recommend appropriate coverage</li> </ul>	<a href="http://www.iaaa.org">www.iaaa.org</a>
<b>Lawyer</b>	<ul style="list-style-type: none"> <li>• Navigate legal labyrinth</li> <li>• Complete and file business structure paperwork</li> <li>• Prepare contracts and agreements</li> <li>• Write wills and succession plans</li> </ul>	<a href="http://www.abanet.org">www.abanet.org</a> <a href="http://www.smallbusinesslawfirms.com">www.smallbusinesslawfirms.com</a>
<b>Banker</b>	<ul style="list-style-type: none"> <li>• Set up accounts</li> <li>• Business loans</li> <li>• Cash management advice</li> </ul>	<a href="http://www.entrepreneur.com/bestbanks">www.entrepreneur.com/bestbanks</a>

Choose a few key professionals to work with during your start-up. Your budget for expert advice is limited at this time, so it's a good idea to stick to the basics and your most pressing needs. If you don't know whom to call, ask people you respect for a referral, and then set up an appointment to introduce yourself, ask questions, check fees and get a feel for whether the person is right for you. Here are a few key individuals you'll need to have on call.

**Certified Public Accountant (CPA)**

An accountant can help you with much more than taxes. He or she can help you control your cash flow and grow a profitable business. Your accountant can prepare, analyze and explain your financial data, and also serve as a valuable resource, providing professional services that businesses need all year – not just on March 15 or April 15.

There are several kinds of accountants, but a certified public accountant has passed a stringent exam and must pursue continuing education.

Accountants might charge hourly fees or flat rates for specific services. Their fees for services rendered to your business can be tax deductible. Look for the straight-arrow type who adheres strictly to the rules, to avoid costly tax audits and other problems.

As with most advisors, it's best to "help them help you." Before meeting with an accountant, get your books and plans in the best shape possible. The few hours you spend doing this will save your accountant time – and you money.

### Insurance Professional

There are several types of insurance professionals – captive agents that work for, and sell the products of, one company; independent agents that work with multiple carriers; and brokers that represent clients needing more specialized coverages. While their roles may differ, independent agents and brokers typically have access to a wide array of insurance products, and can recommend coverages based on a particular customer's needs.

A good insurance agent, one who makes sure you're covered where you need to be, can mean the very survival of your business. It's vital to find one who understands small business issues – and your particular situation and business.

### Lawyer

Owning a business can be a legal labyrinth. The right attorney can help you navigate the maze and keep you on the path to success.

This is especially important if you choose a partnership or incorporation as your business structure, as you'll need a lawyer to complete and file all the paperwork that will get you launched properly. Attorneys can also draw up and review contracts and agreements (for equity investments, leases and other matters), and help you write your wills and succession plans.

Lawyers' fees for handling your business affairs may also be tax deductible. They typically charge by the hour, plus expenses, but

some ask for an up-front retainer from which they deduct hourly fees and expenses. Ask for a written agreement detailing the fee structure, and ask for itemized bills.

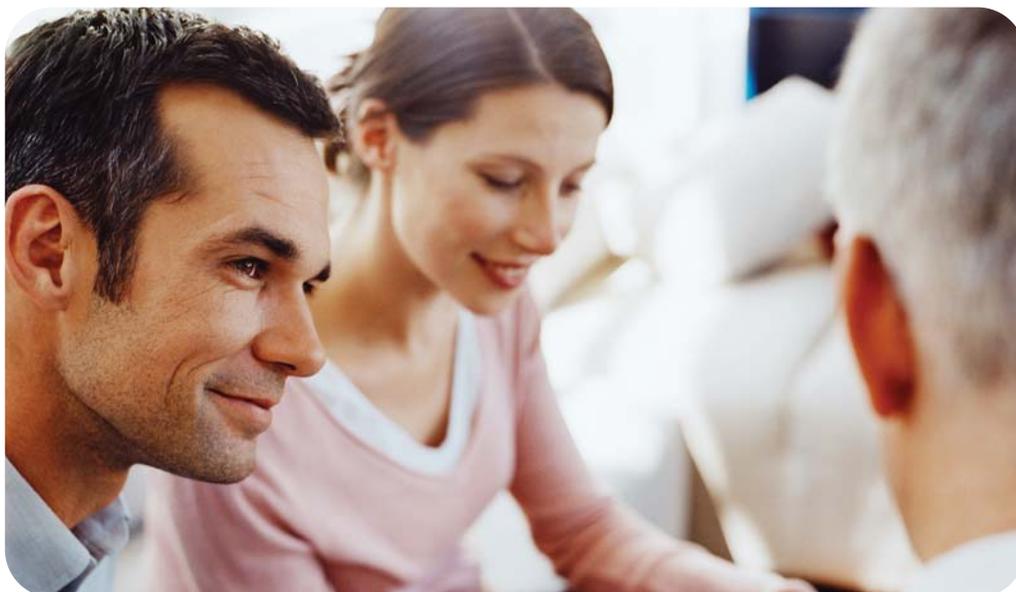
### Banker

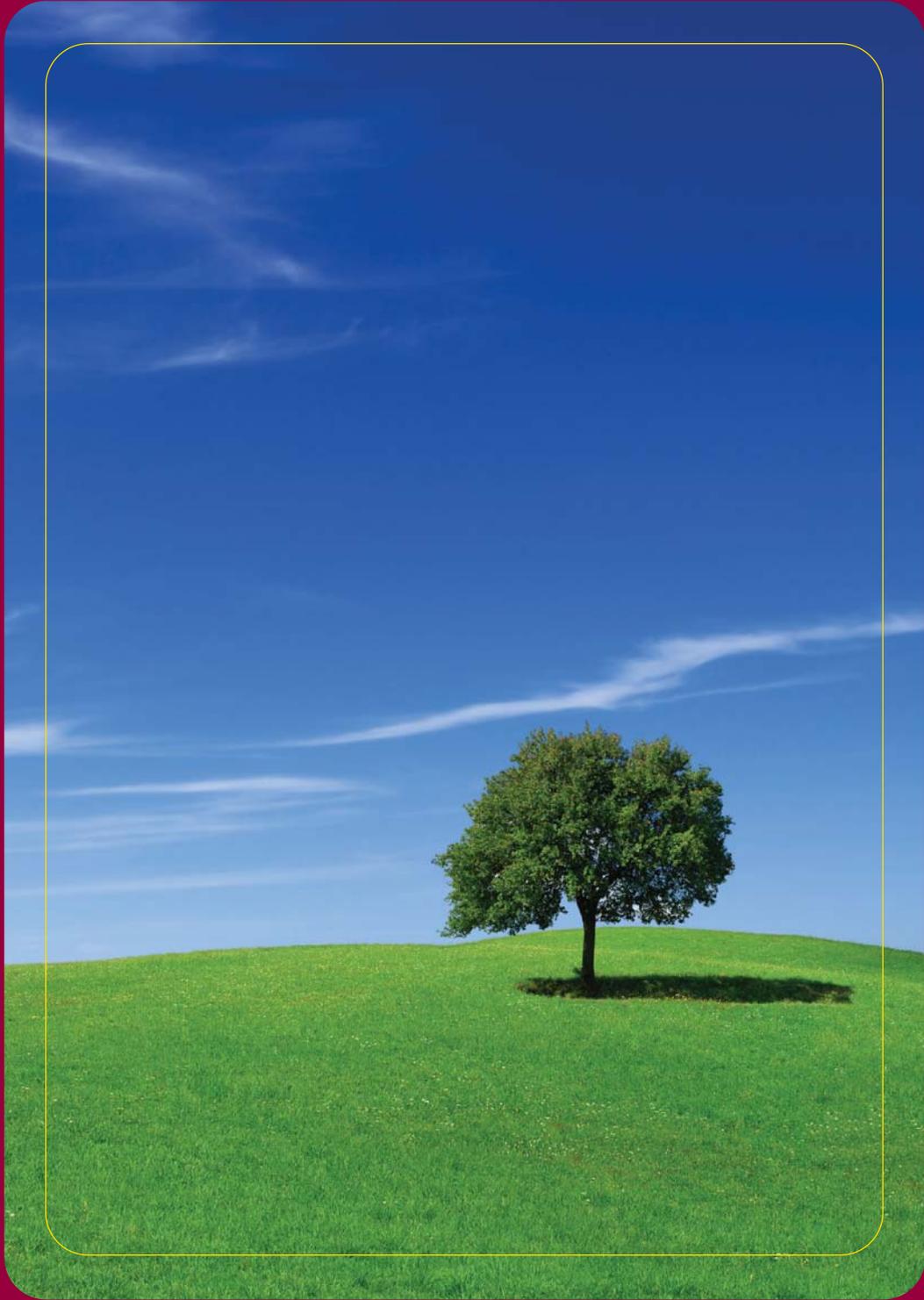
Whether or not you're using a bank right away for funding, you should cultivate a relationship with a key banker. You still need checking accounts and other services, and it doesn't hurt to make friends now to set the stage for more complex transactions later. Bankers can also offer advice on cash management and other banking services.



### ✓ Tax Preparer vs. Accountant

*Should you spend the money on an **accountant** for your taxes or a **tax preparer**? Probably the least expensive way to have your taxes done is to use a tax preparer. He or she might work for a tax preparation firm or in a small business. However, tax preparers are usually uncredentialed. There's no standard training required or exams to pass in order for someone to use this title. You might get a good one, but you might also find one who is unfamiliar with small business issues or current changes to the tax laws. Also avoid preparers (or other types of advisors you may encounter) who hit you with a hard-sell to buy investments.*





# The Growing Company

## *The Topic of Conversation: Important Steps to Protect Your Business and Assets as They Grow*

**Your business is on the road to success.** But that doesn't mean the questions end here. In fact, you may have more now than ever. In this section, you'll learn more about additional sources for financing; benefit and retirement plans for you and your employees; and various types of insurance your expanding business may need. You'll also be introduced to new advisors to consider as your business and needs grow.

The growing small business is one that has achieved a degree of stability, dependable revenues and is earning consistent (or fairly consistent) profits. In other words, there's actually money left over once the costs of marketing and selling your product or service have been covered. At this stage, you're probably one of the 44 percent of small businesses that have made it to four years in operation.\*

At this stage, you, the owner, can find ways to further boost sales and profits, improve employee (and your) compensation and benefits, and expand staff and facilities as appropriate or desired.

Common traits among those businesses that continue to thrive are an enduring focus on innovation, effective and rigorous management, diversification, customer service and employee satisfaction/productivity.

How long this growth stage lasts is up to you and the marketplace.

Some entrepreneurs are happy tending to the same small business they've developed for the rest of their working lives and give up the business only upon retirement. Others become restless after just a few years and get an itch to tackle a new and different challenge. Still others run their businesses in the hope of cashing in by being acquired by a large corporation as soon as the business is on its feet.

Only you know which approach is right for you. In any case, there's a new set of big-picture goals and challenges to consider at this stage, which is all the more reason for a solid, experienced team of advisors to help you through this dynamic phase.

**“Whenever you see a successful business, someone once made a courageous decision.”**

**Peter Drucker**  
(1909 - 2005),  
Business and  
Management  
Expert

\* U.S. Small Business Administration and Monthly Labor Review, May 2005

# Finance

## Conversation Starters

Help your advisors help you by asking them . . .

- How can I secure more resources for business growth? How do I reach professional investors and lenders, as well as more partners and investors?
- Do I need a greater focus on limiting risk and mitigating exposure to potential emergencies?

### Do you need greater sums of money or more sophisticated investors?

If your business is making a profit and you're thinking about your next step, you may need more capital. Perhaps you're moving from small, rented quarters to a larger space, or you're buying real estate. You may need new equipment to increase production or boost your IT capability. You could simply need more people. Or, all of the above.

Now may be the best time to begin redirecting your debt away from personal assets (credit cards, home equity lines, personal loans). Beyond reinvesting your profits as fuel for growth (which you should always discuss with your accountant), it may make sense to seek funding from more sophisticated lenders. There's a good chance these potential brokers made themselves scarce when you were a start-up, but they might now offer access to larger sums than were available to you previously.

It's also wise to wean your company from the family and friends who helped you start up. They were invaluable to you, but professional lenders tend to shy away from small businesses with too many family and friends investors. Start to pay your friends and family as soon as your income allows, and pay them at least as much as they'd earn from commercial investments. They'll feel fairly compensated for their good deed of helping you get

Professional Lending Sources	
Lending Source	Considerations
<b>Banks</b>	<ul style="list-style-type: none"> <li>• Obvious source of capital</li> <li>• Probably cultivated good relationship already</li> </ul>
<b>Strategic Partners</b>	<ul style="list-style-type: none"> <li>• Usually mesh with your business</li> <li>• Work with you in several ways                             <ul style="list-style-type: none"> <li>– Outright loan</li> <li>– Guarantor on bank loan</li> <li>– Invest for equity stake</li> </ul> </li> </ul>
<b>Angel Investors</b>	<ul style="list-style-type: none"> <li>• Deep pockets inclined to invest</li> <li>• Successful small business entrepreneurs</li> <li>• Often have knowledge of your field</li> <li>• Equity investments and equity debt deals</li> <li>• Often want to be involved in business</li> </ul>
<b>Venture Capitalists</b>	<ul style="list-style-type: none"> <li>• Specialize in financing start-ups, early-stage businesses and turnarounds</li> <li>• Higher risk with greater returns</li> <li>• Often require some equity ownership</li> </ul>

started, and you'll be free to seek other sources of capital. And, you'll stay on good terms with those closest to you.

### Some professional lending sources to consider:

#### **Banks**

An obvious source of capital and many from which to choose. You've probably cultivated a good relationship with a local bank by now.

#### **Strategic Partners**

These are usually companies whose businesses mesh with yours (a vendor, distributor or larger, well-capitalized company in a related business). These partners can work with you in several ways: they might make an outright loan to your business, act as a guarantor of your bank loan, invest in your company in return for an equity stake, or a combination of these.

#### **“Angel Investors”**

These are individuals or groups of people with deep pockets and the inclination to invest in small businesses. These investors are typically successful small business entrepreneurs or businesspeople, often with an interest in or knowledge of your field, who can make equity investments, or equity-debt deals to help you pay off other debts or act as guarantors. With such a backer, you can look much more attractive to other lenders, strategic partners and business. “Angels” often want to be involved in your company's operations – a good thing if they can offer a lot to your business besides money, and if you “click.” A bad thing if they threaten your authority or want to make decisions without your level of insight.

### Venture Capitalists

'VCs' are institutions specializing in the financing of start-up and early-stage businesses, as well as businesses in turnaround situations. Generally, venture capital investments are higher-risk investments, but they offer the potential for above-average returns. For taking the higher investment risk, VCs are usually rewarded with some combination of equity ownership rights in the business, and are often involved with companies that have a goal of becoming publicly traded.



#### **Beware of Unknown Investors**

*Beware of unknown investors and always check their references carefully (past recipients, attorneys and accountants), as scam artists are lurking, looking for their next victim. Look into the Small Business Administration's Angel Capital Electronic Network (ACE-Net), which is a list of accredited small business investors with net worth greater than \$1 million or net income greater than \$200,000.*

### Prepare for ongoing cash flow crunches.

Growing businesses, like those in the emerging stage, can also experience shortages in actual cash on-hand (which, contrary to what many people believe, often have little to do with the company's actual profitability). A major customer who suddenly starts paying bills late, a shift in the economy, a health scare that affects your product – a variety of scenarios can pull cash out of your business.

Growing businesses usually need reserve funds to help manage these situations. However, the most important and immediate thing to do is discuss with your accountant why these cash flow crunches are taking place, and what you can do to prevent or

lessen them in the future. Since you probably have a track record now, you have more leverage with lenders and can set up accounts to tap during these crunch times. Some options include:

#### **Company Credit Line**

Like a home equity line, it makes credit available on demand. But it relies on your business collateral, not your home or other personal assets. Like a home equity line, it's best to apply for one when you don't need it. Shop around, however, as some lenders require that you borrow something from your company credit line whether you need funds or not; then you'll pay interest on what you borrow. Talk to your accountant or banker about what's best for your business situation.

### Corporate Cash Management Account

At the same time, a Corporate Cash Management Account with a bank or investment brokerage can be a very useful tool. This account allows you to link your company checking account to a liquid interest-bearing savings account (typically a money market fund). Any company cash that isn't being used can go into it and earn interest, but it will be completely liquid when you need it.



# Compensation & Benefits

## Conversation Starters

Help your advisors help you by asking them . . .

- How often should I review how I compensate myself?
- Are there advantages to deferring compensation?
- When should I consider introducing company-wide benefits?

## Health Benefits



According to a 2004 survey of employer health benefits, nearly 87 percent of firms with between 25-49 employees offered health insurance coverage.

Source: 2004 survey by The Kaiser Family Foundation and the Health Research and Educational Trust

## A good time to review your self-compensation policy.

Once you have progressed to a consistently positive cash flow situation, you may want to raise your own salary. Before you do, however, consider your tax situation and gear your pay to the health of your business. Your accountant can advise you on how best to do this and balance the interests between yours and the company's financial considerations.

## Deferred Compensation

If your company is doing well enough that you've been able to increase your compensation and benefits package (including retirement funding), you might want to consider an additional source of saving for the future: a deferred compensation plan. You pick the amount and the timing (you can defer compensation every year or just for one year—or whenever you like). Deferred compensation plans usually include qualified retirement plans, such as pension and profit-sharing plans (must be non-discretionary), as well as non-qualified plans limited to highly compensated and management-level employees. Stock options are another possible component of an overall compensation strategy.

The primary benefit of most deferred compensation is tax deferral.

## What About an ESOP?

*Is your business right for an Employee Stock Option Plan? Talk to your accountant or lawyer about ESOPs, which are not only an employee retirement benefit, but also a performance incentive. ESOPs can be key in the company's future transition, as well (see *The Transitioning Company*). The business funds employee retirement accounts that invest in your company's stock; employees own a stake in the company and are motivated to see it prosper. An employee may sell stock starting at age 55. The year after the employee retires, the ESOP must issue distributions to the employee. ESOPs can be expensive to set up and are typically for larger companies.*

## Another Look at Disability Insurance

*There are pros and cons to buying disability insurance for the entire company versus just for yourself. A company policy will be easier to get and the premiums will be deductible, but it will require a bigger cash outlay. Benefits are considered income and are subject to personal tax. There are two options for disability insurance: pre-tax contributions with taxable benefits, or taxed contributions, for which benefits are not taxed.*

*An individual plan, if you can get one, will be proportionately more expensive, but any benefits you receive are not taxable.*

## Consider adding new benefits.

The health of your business may allow for the expansion of your compensation package and enable you to begin to offer additional benefits, from childcare subsidies, college savings plans, life insurance and long-term care insurance to smaller, but popular, items like health-club memberships and wellness programs. These benefits have become important to many companies in recruiting and retaining key employees. Take a look around at what competitors and successful companies in other areas are doing.



ESOPs increase sales by about 2.3% to 2.4% per year.

Source: 2001 Rutgers University School of Management and Labor Relations Study by Dr. Douglas L. Kruse and Dr. Joseph R. Blasi

Comparing the Three Major Types of Healthcare Plans			
Plan	Costs	Benefits	Considerations
<b>Health Maintenance Organization (HMO)</b> <ul style="list-style-type: none"> <li>Contractually agrees with healthcare providers to form a “provider network”</li> <li>Providers supply discounted services in exchange for referrals</li> <li>HMO members are required to stay within the network</li> <li>Members select a Primary Care Physician (PCP), who provides care and makes referrals for specialists</li> </ul>	<ul style="list-style-type: none"> <li>Members pay a co-payment for in-network office and hospital visits, regardless of service cost</li> </ul>	<ul style="list-style-type: none"> <li>Relatively simple, with no claim forms</li> <li>Agreed upon charges can be relatively low to members</li> </ul>	<ul style="list-style-type: none"> <li>The least flexibility: limited to enrolled doctors</li> <li>Need referral from primary physician for specialized service and hospitalization</li> <li>If the member receives care from non-network provider, HMO typically won’t pay unless pre-authorized or deemed an emergency</li> </ul>
<b>Participating Provider Option (PPO)</b> <ul style="list-style-type: none"> <li>Similar to a HMO, but employees can choose the physician they want instead of being restricted to HMO providers</li> <li>An employee can choose between an in-network or non-network provider</li> <li>“Richer” benefits such as financial incentives to use network providers</li> </ul>	<ul style="list-style-type: none"> <li>Members pay some portion of the cost (co-insurance) for in-network office and hospital visits, such as 10% of the cost</li> <li>Members pay higher costs for care from providers outside the network</li> </ul>	<ul style="list-style-type: none"> <li>Members can see any healthcare professional in the network, including specialists</li> </ul>	<ul style="list-style-type: none"> <li>Members seeing a physician outside the established PPO network will pay a higher portion of the costs</li> </ul>
<b>Point-of-Service (POS)</b> <ul style="list-style-type: none"> <li>Often considered an HMO/PPO hybrid with members choosing which option they will use each visit</li> <li>POS has contracted provider networks and encourage, but don’t require, members to choose a PCP who acts as a “gatekeeper” when making referrals</li> <li>Members who choose not to use PCPs for referrals (but still seek care from an in-network provider) receive benefits but pay higher copays and/or deductibles</li> <li>Members may visit an out-of-network provider, but member copays, and coinsurance and deductibles, are substantially higher</li> </ul>	<ul style="list-style-type: none"> <li>Members pay some portion of the cost (co-insurance) for in-network office and hospital visits, such as 10% of the cost</li> <li>Members pay higher costs for care from providers outside the network</li> </ul>	<ul style="list-style-type: none"> <li>Least restrictive option of the three main plans</li> <li>Members can see any licensed health-care professionals for anything covered by the insurance</li> <li>You choose deductible and other options when you enroll, and those apply to you and any dependents you enroll in the plan</li> </ul>	<ul style="list-style-type: none"> <li>Care received by out-of-plan providers is reimbursed, but you have to pay a significant co-payment or deductible</li> </ul>

**Consider a company-sponsored healthcare plan.**

The introduction or expansion of a company health benefits package will enhance life for both your employees and you, and will offer tax deductions for your company. As the company grows and your need for top-quality employees increases, a health plan is an important recruitment and retention tool, particularly in fiercely competitive industries like technology, healthcare and finance.

**As important as healthcare plans are, so is careful shopping.**

The three major types of healthcare plans are compared in the chart above.

**Other healthcare options include:**

**Health Savings Accounts**

HSAs were created by the Medicare bill signed in 2003, and are designed to help individuals save for future qualified medical and retiree health expenses on a tax-free basis. The account, usually tied

to high-deductible health plans, is designed to pay for routine medical expenses and/or provide savings for the future. Money put into the account can be used either during the year or accumulated. Allowable medical expenses are defined by the IRS, and are much broader than most insurance carriers. Individuals can deduct dollars contributed to the HSA account from their gross income, resulting in tax-free medical dollars. The account is similar to an IRA account; however it is for qualified medical expenses only.

**Flexible Spending Accounts**

FSAs let employees set aside pre-tax dollars to pay for qualified medical expenses, subject to IRS guidelines, saving money in taxes for both the individual and the company, which deducts a business expense. However, unlike an HSA, funds earmarked for these accounts must be used in the year they are contributed; they can’t be used as a retirement fund. These are truly a “use them or lose them” item.



# The Growing Company

## Insurance

### Conversation Starters

Help your advisors help you by asking them . . .

- Do I need to expand coverages as my business grows? How can I best prioritize coverages?
- How about a comprehensive risk management program?
- Do I need to consider Key Person Insurance, Employment Practices Liability Insurance and Directors & Officers Liability Insurance?

### Protecting Key Employees



Only one-quarter of companies with fewer than 100 employees have key person insurance.

Source: The Hartford Business Owners Survey, October 2006

### Prioritize and expand your coverages.

As your company grows, you should have more resources to devote to insurance – and you may find that you need additional coverages to protect your business against the increased risk that often comes with growth. Whether your growth has taken the form of investment in expensive equipment or the hiring of key staff people, you need to understand the value of your expansion and plan to protect it. And be sure you know what coverages your clients, investors or creditors require. Some might insist on higher limits than you might choose on your own.

As you add employees, it becomes increasingly important to have employment practices liability insurance, which can help protect your business from certain employment-related claims; and key person insurance, which can help protect against a significant loss resulting from the death or disability of a key employee. If you have investors, customers, suppliers or others with a significant financial stake in the success of your company, you may want to consider directors and officers liability insurance, which can help protect the company and its leadership against allegations of breach of fiduciary duty in the management of the company.

### Devise a comprehensive risk management program.

Managing risk is about more than just having the right coverages, although that's where it starts. You need to be sure you know where your risks lie and what steps you can take—beyond

insurance—to limit them. You can help your insurance agent think about risk in a holistic fashion and build a plan to address it. A typical risk management program has many aspects, such as employment screening, proactive loss control, comprehensive safety and ergonomic training, a formal return-to-work program for injured employees (with light-duty jobs pre-determined), special equipment (such as a state-of-the-art fire suppression system), business contingency planning and, increasingly, technology and information protection. To the extent that other professional expertise is required to implement

### Your Annual Insurance Checkup

*It's wise to sit down with an **insurance professional** for a yearly review of your picture. Make sure you review all of your coverages – even if some were purchased through another professional or carrier. Also prepare an overview of changes that occurred in your business over the previous year – fluctuations in revenue, increases or reductions in inventory, new or upgraded real estate or facilities, physical plant and equipment or office equipment, fleet changes and additions to staff. Add an up-to-date inventory of your assets—real estate, physical plant, inventory, office equipment and furnishings and staff. Then your insurance agent will have a full picture of your business that will help you get the protection you need.*



### Insurance as Credit Protection

*Owning the proper type of insurance can accomplish other goals, such as protecting your credit rating when earnings are impaired and funding deferred compensation arrangements. With certain coverages, if an emergency strikes, you have access to your policy's cash values through loans and withdrawals; the cash value of the policy is a company asset. Speak to an **insurance professional** about the details.*

your program, your insurance advisor can help you arrange for these services. And don't forget to ask him or her about credits that might be available for a comprehensive risk management program in a business like yours.

### Ensure that your business can carry on in the event of disaster.

Be it from the wrath of Mother Nature or man-made threats, you need to protect your company's physical and intellectual assets. Work with an IT professional to ensure that you have secure storage of important records and sufficient backup of sensitive company data. Proper planning can get your company back on its feet in short time.

Demystifying Business Insurance		
Policy	Typically Covered (subject to policy terms)	Who Generally Purchases It
<b>Business Owners Policy (BOP)</b> Usually more cost-efficient to purchase bundled coverages as opposed to individually.	Property Damage, Business Interruption Insurance and Comprehensive General Liability. <b>(See next three entries)</b>	All companies.
 <b>Property Insurance (repair or replacement)</b>	Your physical assets: building, equipment, furnishings, fixtures, inventory, computers, valuable papers, records, and more. Can also provide income if business is forced to suspend operations after a covered loss.	All companies.
<b>Business Interruption Insurance</b>	Lost earnings if business is forced to shut down due to fire, windstorm, explosion or other insured loss. May include coverage of expenses incurred to keep operating, such as renting temporary office space.	All companies.
<b>Comprehensive General Liability (CGL)</b>	Your business assets if company is sued for something it did or even didn't do that resulted in bodily injury or property damage to someone else. <b>(See next six entries)</b>	All companies.
 <b>Bodily Injury Liability</b>	Injuries or deaths that happen on company property or arise from your operations. Often limited to bodily injury liability as a result of negligence. Under Comprehensive General Liability Insurance, this coverage, coupled with Property Damage Liability (below), is often referred to as Premises and Operations Exposures.	All companies.
<b>Property Damage Liability</b>	Liability for damage to others' property not in the care, custody and control of the insured.	All companies.
<b>Product and Completed Operations Exposures</b>	Bodily injury or property damage to others caused by the company's finished work or manufactured goods.	All companies.
<b>Advertisers Personal Injury</b>	Lawsuits brought against the company alleging libel or slander as a result of company advertising.	All companies.
<b>Fire Legal Liability</b>	Companies that rent their business property. It protects the landlord against fire damage to the property by the lessee company.	All companies.
<b>Medical Payments</b>	Visitors' minor injuries sustained while on company property.	All companies.
<b>Workers' Compensation</b>	Medical bills, rehabilitation and drugs to treat employees' work-related injuries, as well as lost work time.	Most states require it for companies with one or more employees and impose severe penalties on employers who don't purchase this coverage.

Demystifying Business Insurance continues on **pages 22 and 23.**

# Insurance (continued)

Demystifying Business Insurance		
Policy	Typically Covered (subject to policy terms)	Who Generally Purchases It
<b>Commercial Auto</b>	Cars, trucks and vans owned by the company for business purposes. Most policies also cover the liability of employees using their own vehicles for your business; however, the employees' personal auto policies may provide primary coverage for damage to their automobiles.	Companies that own vehicles for business use or often use employees' vehicles for business. If employees' vehicles used only occasionally, the Commercial General Liability may be sufficient.
<b>Umbrella Liability</b>	Catastrophic losses that exceed the limits of a general liability policy.	All companies.
<b>Professional Liability (Errors &amp; Omissions) Coverage</b>	Claims alleging that something your company did or failed to do on behalf of a customer was in error and cost him/her money or caused harm in some way.	Anyone who gives advice, makes recommendations, designs solutions or represents the needs of others.
<b>Directors and Officers</b>	Directors and officers of your company if they or the company is sued as a result of the performance of their company duties.  Certain claims by government regulators, competitors, investors and shareholders alleging mismanagement, unfair competition, violation of state or federal law and other wrongful acts.	Any publicly traded company with a corporate board or advisory committee. May also be necessary for non-profit organizations and private companies.
<b>Employment Practice Liability</b>	Claims of illegal or discriminatory hiring and firing; sexual harassment; discrimination; mental anguish and other employment-related claims.	All companies with at least two employees. While employment practices lawsuits are usually brought against larger companies, all businesses with employees are vulnerable.
<b>Fiduciary Liability</b>	Claims of a breach of the responsibilities or duties imposed on a benefit administrator in your employ; or negligence, error or omission of the administrator.	All companies that employ an in-house bookkeeper or accountant and provide 401(k), pension or other financial plans.
<b>Fiduciary Bond</b>	Same as Fiduciary Liability, but for companies that outsource their benefit administration.	All companies that outsource payroll/benefits administration.
<b>Crime Coverage</b>	Employee and non-employee theft, forgery, computer fraud, and theft of goods on premises or in transit. (*You may choose on, off or both)	All companies, but especially companies that deal with lots of cash.
<b>Cyber Coverage</b>	Losses from computer hackers, virus attacks, denial-of-service attacks, copyright infringement and customer claims arising from your Web site.	Any company that keeps sensitive information on a network or does business online.
<b>Key Person Insurance</b>	Loss resulting from the death or disability of a key employee.	Any business, but especially small businesses in which the key person is the customer-supplier contact or is so crucial to the business that his/her loss would cause a severe drop in efficiency and loss of capital.
<b>Business Continuation Coverage/Buy-Sell Planning</b>	Transition of ownership in the event of death or disability of a business owner. Helps avoid conflicts between surviving family members and remaining owners.	Small business owners are particularly in need of business continuation planning.

Demystifying Business Insurance		
Policy	Typically Covered (subject to policy terms)	Who Generally Purchases It
<b>Disability Insurance</b>	<p>Covers a person's income when he/she is unable to work because of an accident or illness. Most coverages provide about 60 percent of a person's income.</p> <p>Sold as either <b>Group Disability</b> through an employer, or <b>Individual Disability</b>, purchased directly from a provider (or as part of a group, such a professional association or civic group [e.g., trade group, Chamber of Commerce, etc.]</p> <p>There are two primary types of Disability Insurance:</p> <ul style="list-style-type: none"> <li>• <b>Short-Term Disability:</b> benefits equal to a portion of the employee's wages when he/she can't work because of non-work-related disabling illness or accidental injuries. Usually have a waiting period of 0 to 14 days and most run out within 2 years.</li> <li>• <b>Long-Term Disability:</b> benefits equal to a portion of the employee's wages when employees can't work because of long-term disabling illness or accidental injuries that happen on or off the job. Waiting period of several weeks to several months, and a maximum benefit duration from a few years to the lifetime of the employee.</li> </ul>	<p>Most states require companies to carry some amount of STD.</p> <p>In some states (including Hawaii, New Jersey, New York and Rhode Island), state law requires employers to provide disability benefits for up to 26 weeks.</p> <p>No laws require companies to carry LTD.</p>
<b>Group Life Insurance</b>	<p>Typically offered as Basic, Supplemental or Voluntary coverage and can be paid for by the employer, the employee or shared. The coverage is usually offered as a flat dollar amount or a percentage of the employee's salary, although employers can choose the plan design and other details.</p> <p>Most employer group plans are term insurance, i.e., available to the employee as long as they remain eligible through their employer. The coverage is often available for employees, spouses, dependent children and retirees. During enrollment periods, some plans offer levels of coverage that are "guaranteed" without having to show proof of good health or a medical exam.</p> <p>Costs are determined by the industry, the number of employees, the average employee age and gender of employees.</p>	<p>More common among larger companies, but smaller companies are starting to see this coverage as a recruitment and retention tool.</p>
<b>Group Retiree Health Benefits</b>	<p>Designed to integrate with Medicare plans, cover many of the deductibles, co-payments and out-of-pocket medical expenses not covered by Medicare. Plan designs include a variety of employer and retiree paid solutions, based on the needs of the employer.</p> <p>Sponsored by employer groups with a minimum of two retirees, eligible persons include retirees, spouses, widow(er)s and domestic partners, aged 65 or older, and entitled to Medicare.</p>	<p>All companies with a minimum of two retired employees.</p>
<b>Group Travel Insurance</b>	<p>Covers employees and families against accidental injuries during business trips. Can protect all employees or particular classes of employees, and specify whether coverage pertains to entire trips or only the business portion. Many policies contain travel assistance services, including trip planning and 24-hour emergency medical assistance.</p>	<p>All companies whose employees regularly travel for the business.</p>
<b>Accidental Death &amp; Dismemberment</b>	<p>Provides benefits to employee's family if employee suffers injury or death as a result of an accident. AD&amp;D coverage also pays a certain amount for loss of a limb or certain vital functions as a result of an accident.</p> <p>Similar to group life insurance, AD&amp;D is offered as Basic or Voluntary coverage and can be paid for by the employer, the employee or shared. Unlike life insurance, AD&amp;D coverage does not pay benefits if employee's death is due to illness.</p>	<p>All companies.</p>

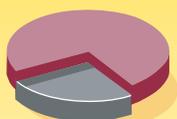
# Your Life, Your Future

## Conversation Starters

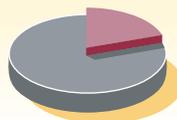
Help your advisors help you by asking them . . .

- Can I enhance my company's retirement benefits?
- How should I be thinking about my own investments in this phase?

### Retirement Planning



Two-thirds of business owners worry about having enough money for retirement.



About one-fifth of small businesses (fewer than 100 employees) offer a 401(k) plan.

Source: The Hartford Business Owners Survey, October 2006

A retirement plan is probably on your radar screen at this point. Companies establish different plans for different reasons – why are you establishing yours? To get maximum tax benefit for yourself and your key employees? To attract and retain employees with the skills you need? Answers to these questions will help you decide what type of plan and features you need.

### Consider a qualified company retirement plan that will enhance your future and that of your employees.

There are a variety of plans available today, including straightforward, economical plans designed for small business owners. By offering a retirement plan, you stand to gain several benefits. Small businesses may be eligible for a three-year tax credit of up to \$500 for setting up a new retirement plan. Your employees, too, might be eligible for tax incentives for their contributions to the plan. A retirement plan can also be a valuable recruitment and retention tool. Today, there are more plan and investment options than ever; speak to your accountant or financial planner.

Qualified vs. non-qualified plans . . . “qualified” plans are eligible for special tax treatment; however, you must satisfy certain non-discrimination requirements intended to provide benefits for rank-and-file employees. Non-qualified plans allow you to pick and choose the benefits

for selected employees, but they may not have all the benefits of tax-qualified plans. Talk to your accountant for specifics.

### Defined Benefit Plans

A plan in which the employer puts aside and invests retirement monies. Employees are guaranteed a defined benefit at retirement. These can be expensive for employers and are falling out of favor.

### Defined Contribution Plans

Most current retirement plans are defined contribution plans, in which employer and/or employee contribute to the employee's retirement account and the participant bears the investment risk. Within this category of plans, there are many variations, each one appropriate for different kinds of businesses in different circumstances. You have several choices. The chart on page 25 is representative of many but not all the choices.

### Take advantage of other ways to save for the future.

If you can put away other monies for retirement, all the better. Business owners need to diversify their investment risk away from their business, and they need to assess this in determining how to balance their portfolio. Work with your accountant or financial planner to look into investments that balance risk and growth. The first step is to tally up your assets and determine their relative security, what they're worth now and how much income they can produce annually, now and over time. Then, fill in the gaps.

### Consider saving for your children's education.

It's often recommended that you fund health insurance and retirement before college, as there are other resources – loans, scholarships, jobs, help from relatives – that may be available to your children when they reach college age.

### Section 529 College Savings Plan

If you have sufficient funds, this is one tax-advantaged education savings plan. It differs from state to state; you can start one through your own state's plan or through the several states that offer their product interstate.



### Don't Neglect Your Own Retirement

*Benefits for your entire workforce might still be financially out of reach for your growing company, but you should discuss your own retirement with your **accountant** or **financial planner**. Don't forget that as a self-employed entrepreneur, you are allowed to fund an IRA for yourself and your spouse. You can also grow your assets in a life insurance policy and be protected at the same time.*

Employer-Sponsored Defined Contribution Plans		
Plan	Benefits	Considerations
<p><b>The Simplified Employee Pension IRA (SEP IRA)</b></p> <p>Employer-sponsored IRA, meaning that contributions are made by the employer rather than the employee. A SEP IRA has higher contribution limits than a traditional IRA. However, the employer's contribution must be allocated to all eligible employees, based on specific formulas.</p> <p>Generally, a SEP IRA allows you to set aside up to 25 percent of your net earnings (but no more than \$45,000 per employee) in a qualified (tax-advantaged) retirement fund, (effectively reduced to 20 percent if you're a sole proprietor because the contribution itself reduces qualifying income, but compensation in excess of \$225,000 [2007] is not taken into account).</p> <p>Money you set aside is both tax-deductible in the current year and tax-deferred until you receive a distribution.*</p> <p><small>*Distributions are subject to ordinary income tax and if taken prior to age 59½, the distribution may also be subject to a 10 percent federal tax penalty.</small></p>	<ul style="list-style-type: none"> <li>• Great option for a smaller business.</li> <li>• Fairly simple to implement; doesn't require a third-party administrator or filing of tax forms.</li> <li>• Does not require ongoing contributions.</li> </ul>	<ul style="list-style-type: none"> <li>• Can be expensive to fund.</li> <li>• Employee contributions are not allowed.</li> <li>• Employer contributions are immediately vested.</li> </ul>
<p><b>The Savings Incentive Match Plans for Employees IRA (SIMPLE IRA)</b></p> <p>IRA-based plan that gives small employers a simplified method to allow employees to contribute, and to make employer contributions toward their employees' retirement and their own retirement. Under a SIMPLE IRA plan, employees may choose to make salary reduction contributions and the employer makes matching or non-elective contributions.</p> <p>Eligible employees may contribute up to \$10,500 in 2007 (\$13,000 if age 50 or older in 2007) with no percentage limit. Generally, the employer must make dollar-for-dollar matching employer contributions on the first 3 percent the employee contributed.</p>	<ul style="list-style-type: none"> <li>• Simple to operate and administrate. Minimal paperwork, expense and tax filing.</li> </ul>	<ul style="list-style-type: none"> <li>• May be established only by employers that had no more than 100 employees who earned \$5,000 or more in compensation during the preceding calendar year (the "100-employee limitation"), and do not currently maintain another retirement plan.</li> </ul>
<p><b>401(k)</b></p> <p>Popular option for companies with more staff. Taxes on accrued earnings are deferred until retirement. The employee can elect to set aside a percentage of salary up to \$15,500 in 2007 (\$20,500 if age 50 or older in 2007). The employer may make matching contributions to the employee's account based on a percentage of the employee contribution.</p>	<ul style="list-style-type: none"> <li>• Many companies match employee contributions, and can make discretionary contributions, up to \$45,000 per employee.</li> <li>• Higher employee contribution limit than SIMPLE plans or IRAs.</li> </ul>	<ul style="list-style-type: none"> <li>• Administrative fees may make them less attractive to smaller firms.</li> <li>• Subject to annual IRS reporting.</li> </ul>
<p><b>Qualified Profit-Sharing Plans</b></p> <p>May be attractive to those businesses whose profits might vary from year to year, since they allow annual contributions to fluctuate with the company's fortunes. Some allow employee contributions of after-tax income.</p>	<ul style="list-style-type: none"> <li>• Permits employers to make discretionary contributions, up to \$45,000 per employee.</li> </ul>	<ul style="list-style-type: none"> <li>• Subject to annual IRS and DOL reporting.</li> </ul>
<p><b>Age-Weighted Profit-Sharing Plans</b></p> <p>Retirement plans that usually let older workers accrue benefits faster than younger employees. The plan assumes that younger employees have more time to save for retirement.</p> <p>The company contributes to each employee's retirement fund based on age and compensation level.</p>	<ul style="list-style-type: none"> <li>• Appropriate for business owners who have increased their own compensation significantly and have mostly younger employees.</li> </ul>	<ul style="list-style-type: none"> <li>• Must be carefully structured, so not to violate the government's "non-discrimination" rules for retirement programs. Subject to annual IRS and DOL reporting.</li> </ul>
<p><b>Solo Defined Benefit Plans</b></p> <p>Funded by the employer and pay a defined benefit at retirement. Under a typical defined benefit plan, a participant's accrued benefit is not determined by the investment results of an individual account but instead is a fixed benefit determined by a plan formula, typically based on years of service and level of average pay. May be most appropriate for high-income earners looking for the highest tax deduction.</p>	<ul style="list-style-type: none"> <li>• The employer's contribution obligation to fund the plan is determined with the help of an actuary.</li> </ul>	<ul style="list-style-type: none"> <li>• Can require the employer to contribute large sums over a relatively brief period of time.</li> <li>• Can be costly to administer because an actuary is required.</li> <li>• Subject to annual IRS and DOL reporting.</li> </ul>

## The Growing Company

# Your World

### Conversation Starters

Help your advisors help you by asking them . . .

- How do I grow my professional network as my business grows?
- Does a small business need an advisory board?
- I've heard a lot about finding a mentor. Why is that important and how do I find one?
- Is it time to shop for a more sophisticated private wealth manager?



### **Review existing relationships and develop new ones as needed.**

At this stage, you'll build your existing network. For financing and expert assistance with growth strategies, seek strategic partners, investors and/or venture capitalists.

While you may have some or all of the following advisors as part of your team, what you require of them may have grown or now differ:

#### **Certified Public Accountant**

As you find yourself with more deductible business expenses and as you have more cash to fund health, retirement and other benefits for yourself and your employees, you'll need expert advice to set all these up and achieve maximum tax benefits.

#### **Lawyer**

You'll need your lawyer if you change your business structure, enter into more complex equity relationships, strategic partnerships, employment issues, real estate transactions and other contracts. Consider switching to or adding a specialist if your current lawyer lacks the knowledge to guide you through a new venture.

#### **Insurance Professionals**

As your cash flow improves and your assets grow, there will be more to your business that you'll want to protect—and you'll have more resources to do so. An insurance professional who is knowledgeable about small businesses, and not tied to selling a single carrier's policies, may be in the best position to help guide you to the coverages that are most important now.



### **Protect Your Growing Assets**

*At this stage your business is growing and, most likely, so are your personal assets. Be sure to shop for a **wealth manager** that offers personal financial planning and a broad variety of investment products. The most valuable advisors are usually those that represent a range of companies and products, and are not tied into one source.*

### Investment Advice: Where to turn for help.

Depending on your situation, you may find it helpful to work with a financial professional who can provide guidance about investments and other financial planning needs. At various times in your life, you might consult an investment advisor, a financial planner – or both. An investment advisor can help you make and manage your investments. A financial planner can help you with insurance, retirement planning, and estate planning as well as investments. However, beware: not all financial planners take such a comprehensive view, and anyone can use the title. It's important to seek help from someone with verifiable credentials.

Registered representatives, often known as stockbrokers or brokers, must pass exams to be licensed to sell securities and must be registered with the NASD. It may also be a good

idea to look for an advisor that holds either of the following designations:

**Certified Financial Planner™** professional can offer advice on retirement, taxes, investing, employee benefits and real estate. A CFP® professional must have a bachelor's degree and three years' experience, and must pass a 10-hour exam overseen by the Certified Financial Planner Board of Standards to use the trademarked CFP initials or logo. You can find a CFP professional in your area, or verify credentials at [www.cfp.net](http://www.cfp.net).

**Chartered Financial Consultant** is a financial advisor with advanced knowledge in wealth accumulation and retirement planning. A ChFC® must have at least three years' experience in the financial services industry and pass an examination on the fundamentals of financial planning, including income tax, insurance, investment and estate planning.



### You may want to create an Independent Advisory Board.

While not required, many small business owners have also begun to assemble a board of advisors, a group of people who come together to share their knowledge and experience. Your board can be made up of the network of specialists whose services you already use or others, including some in your own field of business and a customer or two.

The advisory board has no legal responsibilities or rights, but can be as much of a valuable resource or sounding board as a (legally required) board of directors is to a public company. The key is to sharply define what your board will do – what advice you need, what you don't need, when you will meet, etc. Avoid having employees on your advisory board; they might defer to your opinion, even if you encourage them to speak freely.

### Seek out a mentor or professional coach.

At this stage, you'll often find yourself in need of someone with whom you can talk about business and issues in a confidential, peer-to-peer way – a mentor (when you're at the top of the company, it's hard to have such conversations with associates). A mentor is typically a more experienced owner of a small business who has faced the same challenges that you are facing now. He or she might be someone you've met at a professional gathering, or in the course of your work. Or it might be someone you've found through a mentoring program sponsored by the local entrepreneurs association, a trade group or even a retired businessperson's organization (such as SCORE).

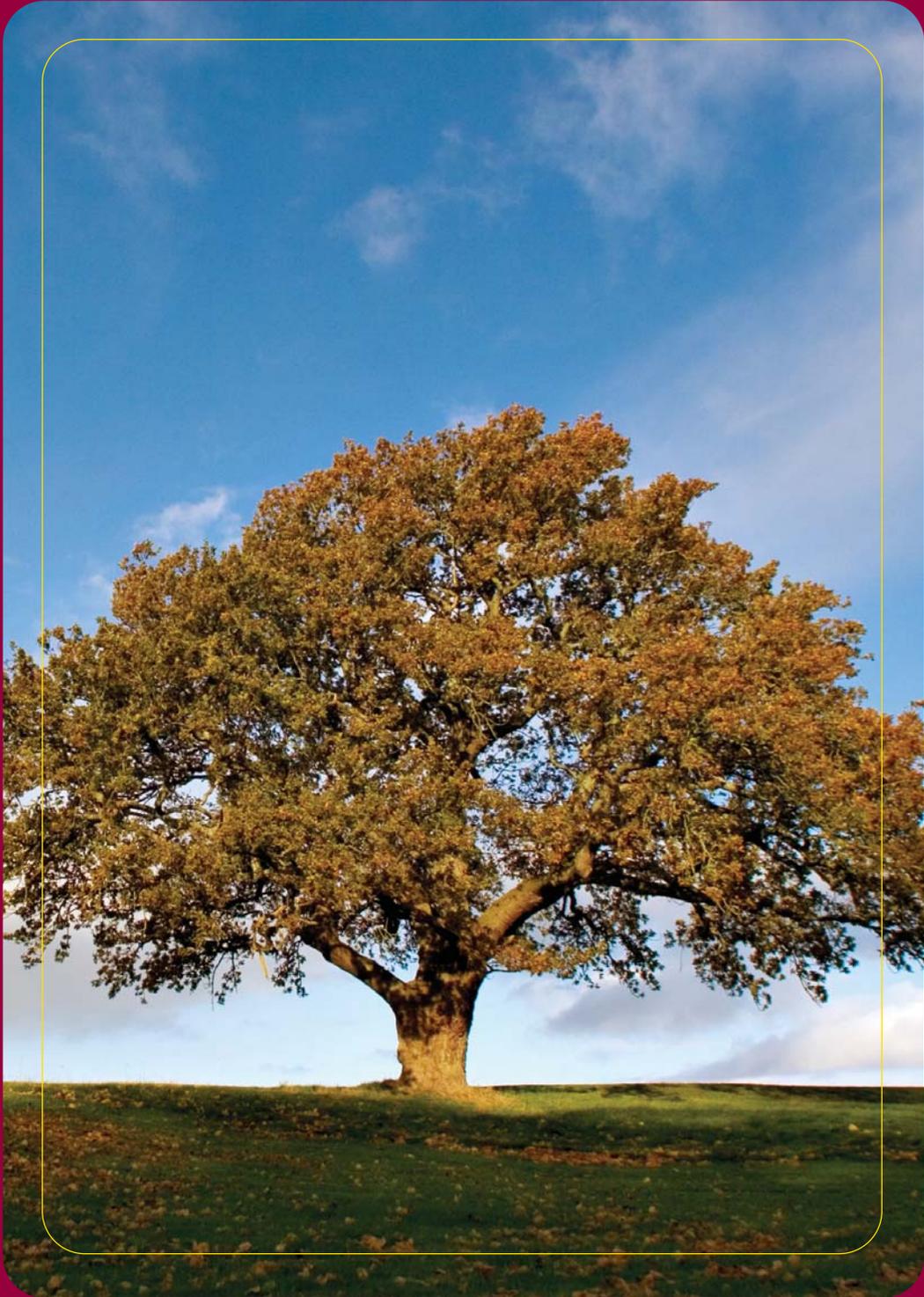
However, make sure that as successful as these individuals have been in building companies, they are also good in advising others in the growth of a business. You can look for such a professional coach at [www.coachfederation.org/ICF](http://www.coachfederation.org/ICF).



### When choosing a financial professional, it's important to:

1. Seek help from someone with verifiable credentials.
2. Meet with a potential advisor to make sure he or she understands your needs and objectives.
3. Find out up front how payment works, whether it is an hourly or fixed fee, commission-based, a combination, or another arrangement.

For more information about selecting a financial professional, visit <http://www.sec.gov/investor/pubs/invadvisers.htm> or <http://www.nasd.com/InvestorInformation/index.htm>.



# The Transitioning Company

*The Topic of Conversation: Important Considerations as You Prepare to Sell or Pass Your Company to Heirs, and Plan for What's Next*

**You're ready to start a new chapter in your life.** You probably have questions about the near future and beyond. This section outlines various options for your business transition, and how the right advisors can help you make the right choices for your business, employees, co-owners and for your own personal financial health.

The transitioning business is one that may be in its last few years under the current owner or owners.

Regardless of whether the transition is triggered by the owner's impending retirement, a change in business conditions or the owner's decision to move on to another venture, the steps taken during this time will be critical to the company's health and owner's future finances.

A major factor in how to treat this phase depends on the actual transition – whether the company is to be sold to another business

entity, another individual, employees or passed to the owner's family.

Whatever the reason for the transition or the nature of the ownership change, maximizing your advantages and minimizing potential pitfalls will require a high level of business

savvy, and greatly benefit from your current – or expanded – group of advisors.

This is also the time to ask whether this core group of advisors – those that have provided valuable advice to get you to this point – is the same group suited to help you through this time of transition. Greater risk and complexity may require professionals with more specific skills and experience.

As with the previous stages of your company's life, there are many financial, insurance and life issues to think about.

## Reaping the Rewards



**More than 40 percent of small business owners say their top long-term personal-finance concern is how to leave their business and realize the monetary benefits of their hard work.**

Source: The Hartford Business Owners Survey, October 2006

# Finance

## Conversation Starters

Help your advisors help you by asking them . . .

- How do I determine if my business is ready for a transition? How do I make it look most attractive for sale?
- Should I expect to receive a lump sum or earn out?
- How can I retain key employees during the transition?

## You might be ready to sell or pass your company to your heirs; what type of transition is right for you and your business?

Type of Business Transitions		
Transition	Possible Benefits	Some Considerations
<b>Sale to Another Company</b>	<ul style="list-style-type: none"> <li>• Usually a company familiar with, and successful in, your industry.</li> <li>• Financial benefits to you and your employees.</li> </ul>	<ul style="list-style-type: none"> <li>• What happens to your employees? Are they absorbed, moved or out of a job?</li> </ul>
<b>Sale to Employees (ESOP)</b> Many small business owners develop strong ties to their employees; If you feel this way – or if your company looks like it would be a hard sell to outsiders based on market conditions or the kind of industry you’re in – you can sell it to your employees through an Employee Stock Option Plan (ESOP) (see <i>The Growing Company, Compensation &amp; Benefits.</i> ) You can transact the sale through an existing ESOP or set the plan up expressly for the transition.	<ul style="list-style-type: none"> <li>• You’ll realize tax benefits with the ESOP using tax-deductible corporate earnings to buy stock from the owner.</li> <li>• Capital gains tax on the sale is deferred.</li> <li>• Employees know the business well and usually have strong ties to the company.</li> </ul>	<ul style="list-style-type: none"> <li>• Most such transitions take several years.</li> <li>• Employees can be reluctant to make changes.</li> <li>• Not for small mom-and-pop shops; usually for companies whose sales total in the millions.</li> </ul>
<b>Sale to Family Member(s)</b>	<ul style="list-style-type: none"> <li>• You know the buyer – little risk for surprises.</li> <li>• Usually someone who knows the business well.</li> </ul>	<ul style="list-style-type: none"> <li>• Often difficult to mix family and finances, especially when there is not an equitable distribution between family members.</li> </ul>
<b>Sale to Co-owner(s)</b>	<ul style="list-style-type: none"> <li>• You usually know the buyer(s) very well.</li> <li>• Usually someone who knows the business well.</li> </ul>	<ul style="list-style-type: none"> <li>• More difficult transaction when co-owners are family members. Can change friendships/relationships post-transaction.</li> </ul>

### But, first, find out if your business and you are ready.

As much planning as it took to start your business, that much – if not more -- planning should be put in during a time of transition. There are many things to review with your accountant before the final disposition of your business, whatever it might be. An accurate valuation of privately owned

companies largely depends on the reliability of the company’s financial information. And, as simplistic as it may sound, you must be absolutely ready to turn the business over.

### Is the business ready?

**Valuation of Business**  
If you are selling, a valuation will show the market worth of your

business – a general idea of how much you can expect to get from a buyer. A valuation is typically determined by an accountant, a lawyer specializing in business transitions, an investment banker or a business appraiser. Whoever you use, make sure they belong to, and adhere to the policies of, one of the three major U.S. valuation societies: the American

Society of Appraisers (ASA), the Institute of Business Appraisers (IBA) and the National Association of Certified Valuation Analysts (NACVA).

There are several methods to determine the accurate valuation of your business – your accountant or a valuation specialist will know the best way for your specific situation and goals. Factors that play into these formulas include the state of the economy, growth prospects of the industry, the company’s outstanding obligations and/or its need for capital expenditures to stay competitive or, if applicable, a pressing need to sell.

When you have precise valuation, work with your accountant or financial planner to compare it to your total annual compensation and what you determine you’ll need after your transition. If your probable sale price won’t meet your needs, it’s time to work on improving performance before selling. If you’re determined to cut back on your own involvement with the business right away, a good manager might be able to achieve the needed growth spurt before a sale.

**Tie up all the loose ends to make your business attractive to buyers. A checklist should include the following elements:**

**Loose End Checklist**

- All company financials are ready to be audited
- Audits and other records should be ready for inspection by prospective buyers
- All taxes are paid
- Verbal contracts with vendors and key employees have been put in writing (non-compete or “retention” agreements for employees are key in some fields)
- Leases and other contracts that are due to expire have been renegotiated (although the buyer might want otherwise). Ensure that all contracts will be honored, no matter who owns the business
- You have developed a selling memorandum detailing the business’s financials, its assets and its potential; the memorandum summarizes what it is you are offering to prospective buyers



**Focus on Debt, Not the Big Projects**

*Don’t assume that you need to undertake major capital projects to correct all the business’s flaws. Buyers want to see high profits, not debt, and they might have the resources, such as underused real estate, for example, that will enable them to correct your company’s flaws on their own. Speak to your **accountant** or **lawyer** about the best course of action.*

Don’t be tempted to change accounting practices to make the business look more attractive. Professionals are trained to easily spot such actions, which can seriously derail your transition plans.

**Are you ready?**

**What do you want/need from the transition?**

After determining that the company’s valuation supports the transition and that the business is ready to sell, you’ll need to calculate your personal financial needs. First, consider what it costs to support your lifestyle (now and in the future) and what obligations you have (or will) have (help for an aging parent or subsidy of a child in college, for example).

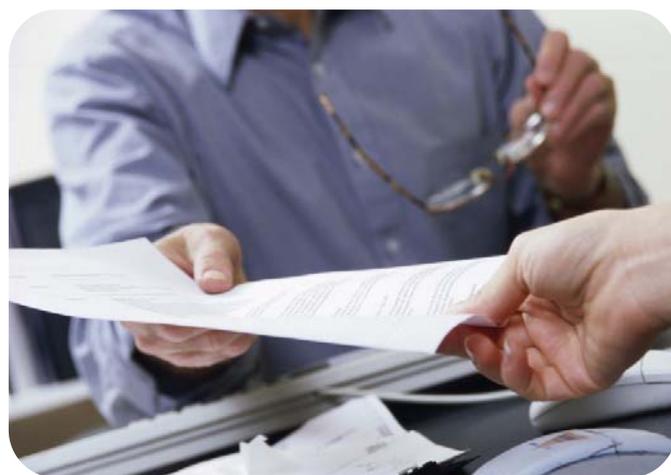
Then ask yourself one of the hardest questions you’ll ever face: what do you want to do now? And be honest with yourself:

- Will you retire?
- Start a new business (which will require capital)?
- Get another job?
- Stay on as a consultant to the business you are selling?

Each option will come with a different expense and income profile.

Once you’ve figured out your life’s next chapter, consider your income needs. You’ll need to factor in the long-term income you can count on from the proceeds from the transition, your savings and any future income. Then you can work with your accountant or lawyer to structure your transition – and payout – in a way that suits your needs.

If you sell to an individual, chances are you’ll get cash, either in a lump sum or in installments. But you might also negotiate a plan to lease some of your assets to the buyer, so you’ll have ongoing income. (This could ease the upfront burden on the buyer, as well.) If you sell to your employees or to a corporation, you might receive cash plus stock or options. Whether you sell to an outside party or an employee, you might negotiate a contract to stay on as consultant for a set fee for a period of time. Work with your advisors to structure a deal that will meet your future needs.



# Compensation & Benefits

## Conversation Starters

Help your advisors help you by asking them . . .

- How do I account for my income and benefits around the transition?
- How can I safeguard my interests if I'm not receiving full payment up front?
- What kind of financial plan do I need for the proceeds from the deal?



### Base your income on your post-transition plans.

With a realistic vision of your business, your future financial needs and your life goals, you can structure a compensation plan that can make your vision a reality. If you are passing your company to your heirs, your compensation once the transition is done will depend largely on your savings from salary, bonuses, retirement and other benefits that you have established over the years. Unless you plan to retain an equity stake or other tie to the company once your successors take over.

If you are selling the company, your compensation can be structured in any of several ways. You might receive the sale price in one lump sum; however, most small businesses owners don't receive full payment up front. Many transactions are structured so that part of the payment is deferred or paid as equity in the buyer's company. You might hold an installment note under which the buyer agrees to pay you set amounts over time. Or you

might retain ownership of key real estate or equipment and lease it back to the buyer; this can afford you additional income after the sale. Work with a professional – typically an accountant, investment banker or lawyer -- who specializes in such sales to create a compensation package that will reward you fairly and securely and be advantageous to the buyer, as well.

### Make Sure the Buyer's Finances Are in Order

*If you're not getting full payment for your company up front, ask your **accountant or lawyer** to investigate the buyer's finances and history thoroughly. Understand that if you hold a note for part of the sale price and the buyer encounters financial problems, you might have to compete with other creditors for repayment. In such cases, there are different classes of creditors; be sure that you are in the secured creditor class—that the debt to you is secured with some kind of valuable collateral.*

### If You Stay On . . .

*The buyer might ask that part of your compensation, if you take on a consulting role or have some involvement in the business, be tied to the company's future performance. Any such offer, whether it involves stock or other arrangements, should be examined carefully because of the risk it carries.*

### Prepare a financial plan for the proceeds from your sale.

Whatever the terms of the sale, it makes sense to plan what you will do with the money. First, you'll have to pay capital gains taxes on any cash proceeds from the sale in any year in which you receive them (unless you're selling through an ESOP). Then, you'll need to protect the remainder and help it grow to provide for your future needs. Do you already have a well-funded retirement plan? Have you done your estate planning? The plans and instruments you have in place might need to be updated based on the terms of your transition. It's worth your while to consult your accountant or financial professional well in advance of the sale. You should also consult a financial professional regarding employee compensation and the security of retirement and other benefits.

The Transitioning Company

# Insurance

## Conversation Starters

Help your advisors help you by asking them . . .

- How do I ensure that my coverages are sufficient and up to date, both as an attraction for buyers and in the event that insurance will be part of the transition?

### **Be sure prospective buyers find your company adequately covered.**

If you are transitioning via a sale, review your insurance situation with an insurance professional to be sure there are no red flags that will scare off a prospect. If you are underinsured, this could signal mismanagement of the company or artificially high profit margins. Key person insurance can be important to a buyer when certain employees are integral to a company's continued success.

### **Make sure your risk management program is ongoing and effective.**

A comprehensive risk management and safety program can help in a sale. And lack of one can be a deterrent to buyers. Clean up any obvious safety hazards, and implement and enforce safety precautions if necessary.

Depending on your business, prospective buyers will want to look at your accident and injury history, and you want as clean a record as possible. A well-trained workforce with a solid history of managing risk and maintaining safety will be much more attractive than one that will have to start from square one.

### **If an insurance policy will be part of your transaction, be sure it is in place.**

In some cases, and if your policy has built up sufficient funds, a company might borrow against the cash value of a policy to enable a partner or employee to buy all or part of the owner's stake. If this kind of arrangement will be part of your transition, work with your insurance advisor to make sure you have the coverage and flexibility well before you need it.

### **If you will be staying on with the company, make sure you have all necessary insurance protection.**

If you plan to retain an ownership stake in the company or if you are staying on in a management capacity, you'll want to be sure all of your coverages are adequate and up to date. That way, you can be sure your investment is protected, even if you're not involved on a day-to-day basis.

### Start the Insurance Ball Rolling Early

*If you are working with an **insurance professional** to update your coverage, keep in mind that some policies take a while to implement. Apply for these early enough so that everything is in place when you are ready for prospective buyers to come calling.*



*For a more in-depth description of the various business-related insurance policies, see **The Growing Company** on pages 21–23.*

# Your Life, Your Future

## Conversation Starters

Help your advisors help you by asking them . . .

- Can I use estate-planning trusts to ensure the financial security of my heirs?

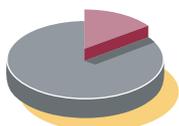
### Family Matters



Ninety percent of U.S. businesses are family-owned.



However, only 30 percent of family-run companies today succeed into the second generation.



An even smaller 15 percent survive into the third.

Source: U.S. Small Business Administration, Business Development Success Series, 2001

## If your assets warrant, set up trusts to protect your hard-earned wealth.

Your will has probably been drafted, you've planned for your retirement and other financial needs and obligations, and structured your transition. But if you've accumulated significant assets, it's time to consider what will become of them when you depart this world. If you're not careful, the tax collector could wind up with a bigger chunk of your estate than necessary.

True, federal estate taxes are scheduled for a one-year repeal final phaseout in 2010; but they will exist until then, and are also scheduled to return in 2011. What's more, current laws dictate a somewhat confusing and changing schedule of estate tax exemptions. Despite what Congress may enact before then, it's vital that you consult your tax advisor to plan for you and your family's future.

If your business and other assets are substantial enough to exceed any applicable estate tax exclusions, current tax rates can require your heirs to pay one-third to one-half of the remainder of your estate. Fortunately, there are steps you can take to reduce your heirs' tax burden, and trusts are chief among them.

## Trusts

A Trust is simply composed of assets given over to a trustee. You can create a trust with personal and/or business assets. Testamentary trusts are created

through your will and activated on your death. Living trusts are created while you are alive, but they can continue after your death if you stipulate that they should.

### Different Types of Trusts

Trust	Considerations
<b>Credit Shelter Trust</b>	<ul style="list-style-type: none"> <li>• Assets above and beyond the exclusion amount pass directly to spouse estate-tax-free due to unlimited marital deduction</li> <li>• Assets equal to the exclusion amount directed into a Credit Shelter Trust with no tax due</li> <li>• Can purchase life insurance policy for survivor upon death of insured</li> </ul>
<b>Grantor Retained Annuity Trust (GRAT)</b>	<ul style="list-style-type: none"> <li>• Living trust where grantor retains an interest in assets, and is paid income for specified time period</li> <li>• Often suitable for single, divorced or widowed people</li> <li>• At end of term, assets in trust pass to one or more named beneficiaries</li> </ul>
<b>Life Insurance Trust</b>	<ul style="list-style-type: none"> <li>• Death benefit paid by life insurance policy is placed in trust and excluded from the taxable estate</li> <li>• Can purchase a policy insuring either husband or wife, or a policy insuring both husband and wife; benefits would be paid out only upon death of second person</li> </ul>
<b>Charitable Remainder Trust</b>	<ul style="list-style-type: none"> <li>• Donate money or property to a charitable organization, but donor receives income while living</li> <li>• Beneficiaries receive any income and the charity receives the principal after a specified period of time</li> <li>• Grantor avoids capital gains tax on the donated assets, gets an income tax deduction and asset is removed from the estate, reducing subsequent estate taxes</li> </ul>
<b>Dynasty Trust</b>	<ul style="list-style-type: none"> <li>• Long-term trust planned to last a specific or unlimited generations into the future</li> <li>• Often used to fund higher education for multiple generations</li> </ul>

### Several kinds of trusts to consider include:

#### Credit Shelter Trust

A Credit Shelter Trust is one kind of trust that can shelter your estate from taxes. Many spouses leave their estates to their surviving spouse in the form of two trusts. Assets above and beyond the deceased spouse's applicable exclusion amount either pass directly to the surviving spouse or are directed to a Marital Trust, or A trust, for the benefit of the surviving spouse. In either case, the assets are received estate-tax-free due to the unlimited marital deduction; however, they will be included in the surviving spouse's estate.

Assets equal to the deceased's applicable exclusion amount are often directed into a Credit Shelter Trust, or B trust, resulting in no tax due. Assets within the trust and any appreciation of those assets should not be included in the surviving spouse's estate, thereby reducing the estate tax incurred at the second death. The Credit Shelter Trust can also purchase a life insurance policy on the life of the surviving spouse; upon death of the insured, the life insurance proceeds are received by the trust income and estate tax free.

#### Grantor Retained Annuity Trust (GRAT)

The Grantor Retained Annuity Trust is another way to shelter assets. It's a living trust in which you, the grantor, retain an interest in the assets in the trust for a specified time period. These trusts are often suitable for single, divorced and widowed people who won't have two estate exclusions at their disposal. GRATs let you place a portion of the stock in your company in trust for your heirs. You retain an interest in the company and the trust pays you an income stream for a specified time period. Because you hold an interest in the stock owned by the trust, its value is discounted and its gift tax liability is reduced.

At the end of the trust term, any assets in the trust pass to one or more named beneficiaries (e.g., specific family members or even a life insurance trust, which can use the assets to help fund the life insurance held by that trust).

#### Life Insurance Trusts

Life Insurance Trusts are another tax-advantaged method for passing wealth to the heirs of a large estate. With this arrangement, the death benefit paid by the life insurance policy is placed in trust and excluded from the taxable estate. You can use shares in the company or other assets to set up the trust, and you can buy one life insurance policy insuring either husband or wife, or a policy insuring both husband and wife; the benefits would be paid out only on the death of the second person,



when estate tax would be due. Take care to have it done by a knowledgeable professional to make sure it conforms to IRS rules.

#### Charitable Remainder Trusts

Charitable Remainder Trusts are a way to support a worthy cause while helping to secure your own future. An arrangement is made to donate money or property to a charitable organization, but the donor continues to use the property, and/or receive income from it while living. The beneficiaries receive any income and the charity receives the principal after a specified period of time. The grantor avoids any capital gains tax on the donated assets, and also gets an income tax deduction for the fair market value of the remainder interest that the trust earned. In addition, the asset is removed from the estate, reducing subsequent estate taxes. While the contribution is irrevocable, the grantor may have some control over the way the assets are invested. There are three primary types of CRTs: a charitable remainder

annuity trust (which pays a fixed dollar amount annually), a charitable remainder unitrust (which pays a fixed percentage of the trust's value annually), and a charitable pooled income fund (which is set up by the charity, enabling many donors to contribute).

#### Dynasty Trusts

Dynasty Trusts are long-term trusts that are planned to last for specific or unlimited generations into the future. They are also known as "legacy" or "perpetual" trusts. Dynasty trusts are designed to last beyond the time period allowed by the Rule Against Perpetuities, which has limited trust durations by most U.S. states (about half of the states follow the Uniform Statutory Rule Against Perpetuities). Dynasty trusts are often used to fund higher education for multiple generations.

The Transitioning Company  
Your World

 **Conversation Starters**

Help your advisors help you by asking them . . .

- How important is my professional network during the transition?

**Continue to build your network as you prepare for your transition.**

As you transition out of your business, or into a lesser role in it, it might seem like you have less need for the network you have created. On the contrary, you need them more than ever. In addition to those early contacts, you should also seek out a professional who can consult

on valuation, a business broker or investment banker who will invite the submission of bids for your business and, most important, a buyer/successor.

The following key individuals were addressed in the previous section, but you may need them for different purposes during your transition.

**Certified Public Accountant**

Your accountant is a key player during your transition. Now is the time to make sure taxes and other bills are paid, receivables are collected or written off, and all is in order. The accountant can audit the books and help you decide if you are in a favorable position to sell, compile other documents for presentation to

The Professional Network's Role in the Transitioning Company	
Professional	Role in Transition
<b>Certified Public Accountant</b>	<ul style="list-style-type: none"> <li>• Help decide if you're in a favorable position to sell</li> <li>• Compile documents for presentation to potential buyers</li> <li>• Make a valuation of your company that's used to set asking price</li> <li>• Help structure deal to avoid negative tax consequences and put estate planning instruments in place</li> </ul>
<b>Insurance Professional</b>	<ul style="list-style-type: none"> <li>• Verify all coverages a buyer would want to see are in place</li> <li>• If insurance policy is part of transaction, they can ensure that it is in order</li> </ul>
<b>Lawyer</b>	<ul style="list-style-type: none"> <li>• Draft any contracts, leases or employee "retention" or non-compete agreements that will be in effect after the transition</li> <li>• Draft the transition agreement</li> <li>• Help qualify potential buyers</li> </ul>
<b>Business Appraiser</b>	<ul style="list-style-type: none"> <li>• Help secure the best and most realistic price for business</li> <li>• Itemize the value of various components of the business</li> </ul>
<b>Investment Advisor</b>	<ul style="list-style-type: none"> <li>• Help you plan what to do with the proceeds from the transaction</li> </ul>
<b>Strategic Partner/Angel Investor/Venture Capitalist</b>	<ul style="list-style-type: none"> <li>• If still involved, must sign off on the impending transition</li> <li>• Offer insight on how they structured their wealth, and may have ideas on opportunities or businesses in which to invest</li> </ul>
<b>Independent Advisors</b>	<ul style="list-style-type: none"> <li>• Help assess the prospects and timing of a transition</li> </ul>
<b>Business Broker/Investment Banker</b>	<ul style="list-style-type: none"> <li>• Invite businesses to submit bids to buy your company</li> </ul>
<b>Buyer/Successor</b>	<ul style="list-style-type: none"> <li>• Need to assess whether they are qualified to run the business</li> </ul>

potential buyers, and make a valuation of your company that will be used to set the asking price. (Be sure to use an accountant who has experience in valuations.) He or she can help structure the deal to avoid negative tax consequences and put estate planning instruments in place.

#### **Insurance Professional**

Your insurance professional can verify that all the coverages a buyer would want to see are in place, and if not, can bring you up to date. If an insurance policy is to be part of the transaction, he or she can ensure that it is in order, as well.

#### **Lawyer**

Your lawyer is the person who will draft any contracts, leases or employee “retention” or non-compete agreements that will be in effect after the transition. He or she will also draft the transition agreement, whether it is an outright sale or other arrangement, and handle the closing. It’s important to use an attorney who specializes in such transactions. The attorney should be able to spot any contract terms that could work against you. Your tax and estate plan should be worked out before the sale goes through, so you can achieve maximum benefits. The lawyer can also help to qualify potential buyers to be sure they can live up to the terms of the deal.

#### **Business Appraiser**

You can ask your accountant for a valuation of your business, but a professional business appraiser – who specializes in business valuations in your particular industry – can be invaluable in your effort to secure the best and most realistic price. (Overpricing can be a deterrent to the sale, while underpricing means lost money.) Business appraisers can also itemize the value of various components of the business – equipment and real estate, for example – or they can work with other appraisal specialists to do so. Be sure your appraiser has earned accreditation from a business appraiser or valuation trade association. (There are about half a dozen or so, and all are acceptable.) Legal proceedings typically recognize only valuations and appraisals made by credentialed appraisers.

#### **Investment Advisor**

An investment advisor can help you plan what to do with the proceeds from the transaction and how best to safeguard it, particularly if you are retiring and it will be a major source of income in retirement.

#### **Strategic Partner/Angel Investor/ Venture Capitalist**

Any of these players who are still involved with your business must sign off on the impending transition. In some cases, debt repayment or distributions on investments will be due. (In

some cases, they might be the buyers.) At the same time, they could offer valuable insight on how they structured their own wealth, and may have great ideas on opportunities to consider or businesses in which to invest. Use their expertise, but also learn from their own experiences.

#### **Independent Advisors**

Advisory boards can help assess the prospects and timing of a transition, whether sale or succession.

#### **Business Broker/Investment Banker**

A business broker will invite businesses to submit bids to buy your company. An investment banker will do the same, but usually works with only the biggest deals. He or she has access to potential buyers beyond your local area and they’ll often have deeper pockets. A deal handled by an investment banker often commands a higher price. Investment bankers can also make a business valuation and help structure the deal.

#### **Buyer/Successor**

If you are planning to pass your business to a family member, you need to assess whether he or she is qualified to run the business you spent years to build. Ideally your successor will have worked with you and gained experience in the company so that you both can make an informed decision.



#### **Make Sure the Team Plays Well Together**

*Some of the functions of the transition can be performed by more than one type of advisor. Valuations can be made by **accountants, business appraisers** or **investment bankers**, and if you can afford it, it’s not a bad idea to get valuations from more than one source, because they’ll approach the question from different viewpoints, and proper valuation is key to getting the best deal. If you do use different advisors whose expertise might overlap, be sure that everyone understands who will be the key negotiator, so that you don’t have a **lawyer** and an **investment banker** both trying to negotiate terms independently and inadvertently weaken your side.*



#### **More Than Money**

*Remember the importance of your “psychic income” during the transition. Money is a factor, but your personal satisfaction and happiness is another. If you are staying on after the sale, make sure the chemistry between you and the buyer is good. It’s also vital that the roles and responsibilities are clear, and that what you are being asked to undertake is personally interesting to you and works to your strengths. On the other hand, if you’re planning to hit the beach, make certain you are ready for that, as well.*

# Structuring Your Company

Whether you're just starting out, expanding/ changing your business or looking to sell, it's important that your understanding of business structures is sound.



**You're Not Locked Into One Business Entity**

Once the company's operations are well under way, growth strategies might be better served by a different business structure. As a sole proprietor, you might want to take on a partner to ease the workload or reward a key employee with a stake in the company. Or your company might enjoy greater growth than you envisioned and you might opt to incorporate and issue stock. Be aware that some changes are more difficult than others, but they can be accomplished with the help of **lawyers, accountants** or other professionals.

Guide to Structuring Your Company	
Structure	Key Elements
<p><b>Sole Proprietorship</b> An individual or married couple.</p>	<ul style="list-style-type: none"> <li>• Set-up costs are minimal; there's no complex documentation to go through and no state fees.</li> <li>• Business income is taxed as personal income and is subject to self-employment tax.</li> <li>• Insurance can mitigate the liability to some extent.</li> </ul>
<p><b>General Partnership</b> Has two or more owners (who aren't a married couple).</p>	<ul style="list-style-type: none"> <li>• Set-up costs are minimal with no state fees or documentation.</li> <li>• Experts recommend a written agreement spelling out the partners' responsibilities, how decisions will be made, how money will be spent, how profits will be split and how these terms will be adjusted if one partner is unable to meet his or her responsibilities; how new partners will be added; and how the partnership will end.</li> <li>• Business proceeds are taxed as the partners' personal income.</li> </ul>
<p><b>Limited Partnership</b> Similar to a general partnership, but has two classes of partner: limited and general.</p>	<ul style="list-style-type: none"> <li>• The general partner(s) bears the remainder of the liability and is responsible for day-to-day operations.</li> <li>• The limited partners' liability is based on the percentage of their investment.</li> <li>• Besides the partnership agreement, many states require the partners to file a Certificate of Limited Partnership, as well.</li> </ul>
<p><b>Corporation</b> A corporation is a legal entity, with a charter granted by the state in which it is headquartered. It can sell shares of stock to raise money; shareholders become part-owners based on the size of their investments.</p> <p><b>S Corporation</b> is intended for businesses that don't call for massive amounts of capital; they are legally allowed to have up to 100 shareholders (up from 75 beginning with tax year 2004) and to issue just one class of stock. Income earned by the corporation is taxed as shareholders' personal income.</p> <p><b>C Corporation</b> status allows for an unlimited pool of shareholders. Stock can be issued in different classes, with different rights for shareholders. The corporation itself must pay taxes; business proceeds are taxed again when paid to shareholders as dividends.</p>	<ul style="list-style-type: none"> <li>• The corporation, not shareholders, is liable for its obligations.</li> <li>• Incorporation requires start-up fees and complex documentation.</li> <li>• Corporate entities are monitored by various governmental agencies and must comply with a variety of rules.</li> </ul>
<p><b>Limited Liability Company</b> A hybrid entity that shields owners' personal assets from business liability, but allows the returns they earn to be taxed once, as personal income.</p>	<ul style="list-style-type: none"> <li>• The law allows for an unlimited number of owners, called members, to invest in an LLC.</li> <li>• The relationships between an LLC's members are documented in its Operating Agreement.</li> </ul>

# Business Resources on the Web

## Places to Go for Additional Information

### The Business Owner's Playbook Web Site

[www.thehartford.com/businessowner](http://www.thehartford.com/businessowner)

### The Hartford Web Site

[www.thehartford.com](http://www.thehartford.com)

### Banking

Entrepreneur.com  
[www.entrepreneur.com/bestbanks](http://www.entrepreneur.com/bestbanks)

### Business

U.S. Small Business Administration  
[www.sba.gov](http://www.sba.gov)  
[www.business.gov](http://www.business.gov)

Minority Business Development Agency  
[www.mbda.gov](http://www.mbda.gov)

National Federation of Independent Businesses  
[www.nfib.com](http://www.nfib.com)

U.S. Economic Development Administration  
[www.eda.gov](http://www.eda.gov)

### Business Appraiser

American Society of Appraisers  
[www.appraisers.org](http://www.appraisers.org)

Institute of Business Appraisers  
[www.go-iba.org](http://www.go-iba.org)

### Business Broker

International Business Brokers Association, Inc.  
[www.ibba.org](http://www.ibba.org)

### Certified Public Accountants

American Institute of Certified Public Accountants  
[www.aicpa.org](http://www.aicpa.org)

Good Accountants.com  
[www.goodaccountants.com](http://www.goodaccountants.com)

### Financial Advisors

Certified Financial Planning Professionals  
[www.cfp.net](http://www.cfp.net)

Financial Planner Network  
[www.financialplannernetwork.com](http://www.financialplannernetwork.com)

Investor Protection  
[www.nasdaq.org](http://www.nasdaq.org)

### Insurance

The Hartford  
[www.thehartford.com](http://www.thehartford.com)

Independent Insurance Agents & Brokers of America  
[www.iiia.org](http://www.iiia.org)

Insurance Information Institute  
[www.iii.org/smallbusiness](http://www.iii.org/smallbusiness)

### Investing

The Hartford  
[www.hartfordinvestor.com](http://www.hartfordinvestor.com)

Morningstar, Inc.  
[www.morningstar.com](http://www.morningstar.com)

The Investors Clearinghouse  
[www.investoreducation.org](http://www.investoreducation.org)

U.S. Savings Bonds  
[www.publicdebt.treas.gov](http://www.publicdebt.treas.gov)

U.S. Securities and Exchange Commission  
[www.sec.gov](http://www.sec.gov)

### Investment Advisors

Investment Advisor  
[www.investmentadvisor.com](http://www.investmentadvisor.com)

### Investors

Venture Capitalist Association  
[www.nvca.org](http://www.nvca.org)

vFinance, Inc.  
[www.vfinance.com](http://www.vfinance.com)

### Labor/Employment

U.S. Department of Labor  
[www.dol.gov](http://www.dol.gov)

### Legal

American Bar Association  
[www.abanet.org](http://www.abanet.org)

### Professional Coach/Mentor

International Coach Federation  
[www.coachfederation.org/ICF](http://www.coachfederation.org/ICF)

SCORE – Counselors to American Small Business  
[www.score.org](http://www.score.org)

### Retirement Planning

AARP  
[www.aarp.org](http://www.aarp.org)

Social Security Administration  
[www.ssa.gov](http://www.ssa.gov)

RetirementPlanner.org  
[www.retirementplanner.org](http://www.retirementplanner.org)

### Taxes

Internal Revenue Service  
[www.irs.gov](http://www.irs.gov)

The Internet addresses of other companies' Web sites are provided in this guide for users' convenience only. The Hartford Financial Services Group Inc. and its affiliated companies (collectively, "The Hartford") do not control or review the listed sites or any content appearing on the sites, nor does the provision of any address imply an endorsement or association of non-Hartford Web sites. The Hartford is not responsible for, makes no representation or warranty regarding, and does not endorse, certify, approve, or warrant the quality, reliability, or performance of any goods or services associated with, used in, marketed through, made available through, or provided through the listed sites, or the contents, completeness, accuracy, or security of any materials on such sites. If you decide to access such non-Hartford sites, you do so at your own risk and Hartford shall not be liable for any damages, losses or liabilities of any kind or nature related to or arising out of any content on the listed site.



**The Hartford Financial Services Group, Inc.**

(NYSE: HIG) is one of the nation's largest financial services and insurance companies, with 2006 revenues of \$26.5 billion. A Fortune 100 company, The Hartford is a leading provider of investment products, life insurance and group benefits; automobile and homeowners products; and business property and casualty insurance. International operations are located in Japan, Brazil and the United Kingdom.

**For additional information visit**  
[www.thehartford.com/businessowner](http://www.thehartford.com/businessowner).

These materials are provided “as is” and for information purposes only. The Hartford makes no representations or warranties that the materials are suitable for your needs, are complete, timely, reliable, or are free from errors, inaccuracies, or typographical mistakes. The Hartford disclaims all warranties, express or implied, including, but not limited to, implied warranties of merchantability or fitness for a particular purpose or non-infringement of others’ rights. These materials provide general information, and should not be construed as specific financial, insurance, tax, legal, or accounting advice. This information is written in connection with the promotion or marketing of the matter(s) addressed in this material. The information cannot be used or relied upon for the purpose of avoiding IRS penalties. As with all matters of a tax or legal nature, you should consult with your own tax or legal counsel and qualified advisor. The Hartford shall not be liable for any direct, indirect, special, consequential, incidental, punitive, or exemplary damages in connection with the use by you or anyone of the information provided here or for link to or use of any Web site referenced herein.

The precise coverage afforded by any policy of insurance described herein, is subject to the terms and conditions of the policies as issued.

*The Hartford Business Owners Survey was conducted online by Impulse Research Corporation in October 2006, with a random sample of 504 small business owners (with fewer than 100 employees) and a margin of error of +/- 4 percentage points.*

Distributed by Hartford Security Distribution Company, Inc.

You may copy this brochure only for non-commercial, personal use. You may not otherwise copy, sell, or distribute or modify the contents of this brochure for any commercial purpose without prior written consent of The Hartford.

“The Hartford” is The Hartford Financial Services Group, Inc. and its subsidiaries, including the issuing companies of Hartford Life Insurance Company and Hartford Life and Annuity Insurance Company.

© 2007 The Hartford Financial Services Group, Inc.

