

Exit Planning Mini Conference: Understanding Your Options for Ownership Transition

June 4, 2026

 **Kreischer Miller**
Center for Private Company Excellence



Transition Options: Understanding the Full Transfer Spectrum

June 4, 2026

Brian Sharkey, Director-in-Charge, Transaction Advisory
& Business Valuation



Agenda

1. Why it is important
2. Key factors to consider
3. Full spectrum
4. Primary paths
5. Rest of today



The Why

- It is important
- It is happening
- It will impact many people

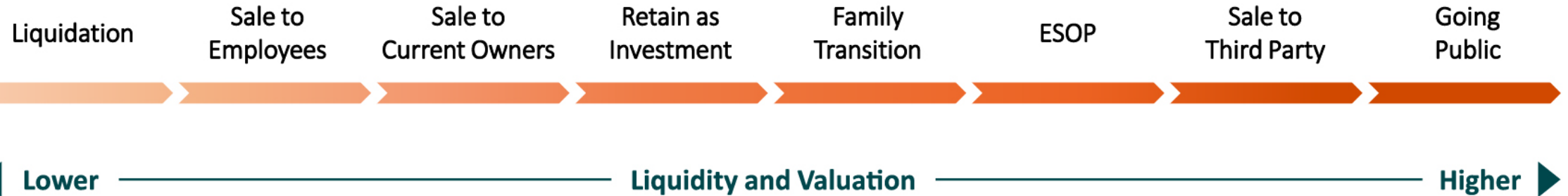
The Factors



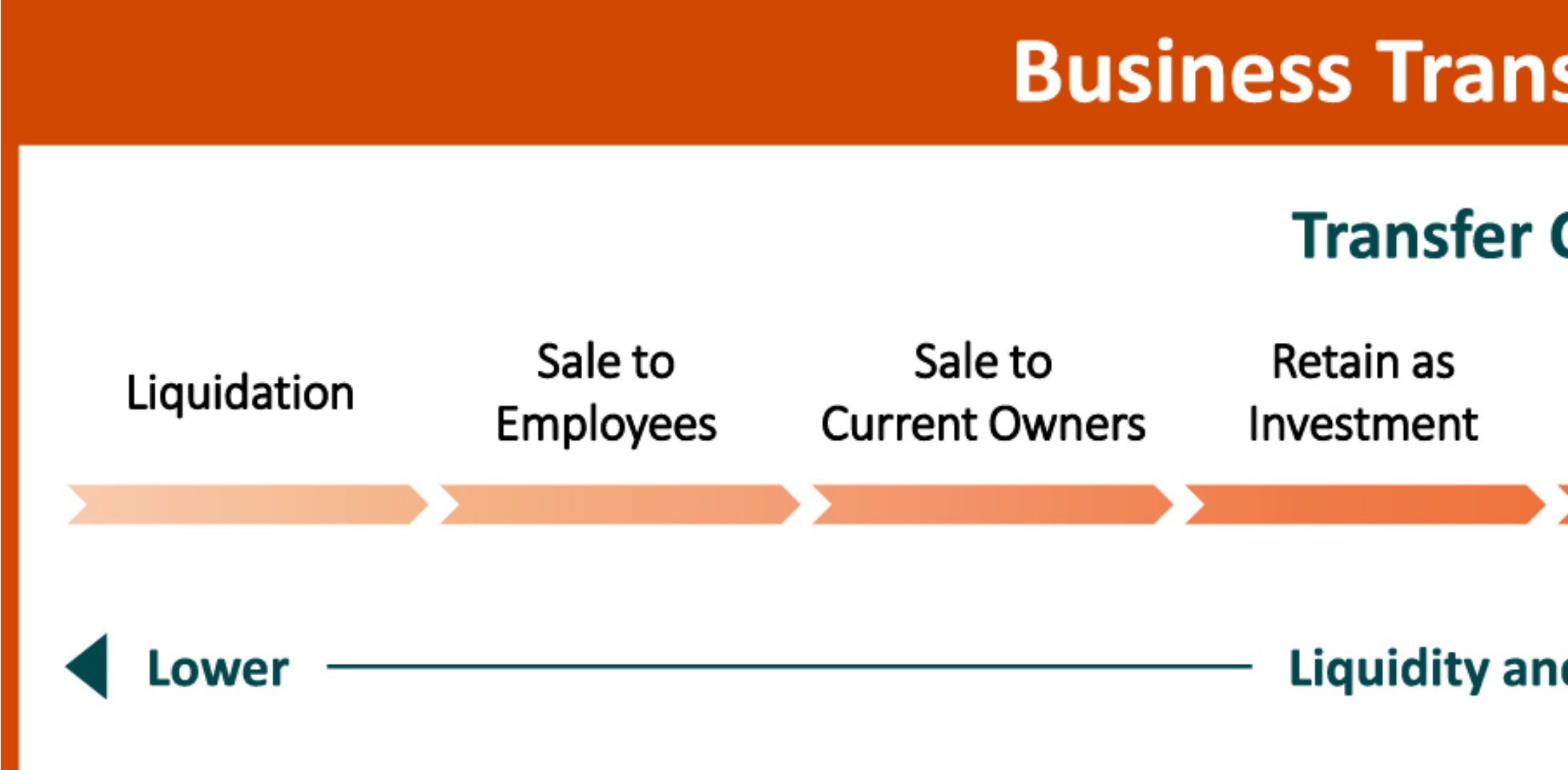
The Full Spectrum

Business Transfer Spectrum

Transfer Channels



The Full Spectrum



The Full Spectrum

Business Transfer Spectrum

Transfer Channels



Liquidity and Valuation

The Full Spectrum

Transfer Spectrum

Channels

Family
Transition

ESOP

Sale to
Third Party

Going
Public



and Valuation



Higher

Third-Party Sale

- **Strategic buyers:** Competitors, suppliers, or companies seeking expansion
- **Financial buyers:** Private equity groups or family offices

Key Advantages

Typically provides the highest valuation

Allows for significant liquidity, often at closing

Can reduce personal financial risk quickest

Key Tradeoffs

Post-sale loss of control

Cultural changes for employees

Often involves earn-outs, rollover equity, or post-closing obligations

Owner Considerations

Are the financials, management team, and reporting “buyer-ready”?

Are you comfortable with confidentiality issues during a sale process?

Do you want to stay involved after closing?

Employee or Management

- **Employees:** Often through an ESOP
- **Senior Management:** Management Buy Out (MBO)

| Key Advantages |
|--|
| Strong continuity of operations |
| Often very positive for employee moral |
| Gradual transition is possible |

| Key Tradeoffs |
|--|
| Valuation may be lower than a third-party sale |
| Typically, slower liquidity for owners |
| Seller often becomes an employee |

| Owner Considerations |
|---|
| Is the management team ready for ownership? |
| Can the business sustain additional debt? |
| Is the culture right for an ESOP? |

Family Succession

- Emotionally **complex**
- Requires as much, **if not more**, planning, communication and discipline

Key Advantages

Keeps the business “in the family”

Offers tax and estate planning flexibility

Allows for multi-generational wealth

Key Tradeoffs

Family dynamics can complicate governance

Liquidity for senior generation can be limited

Allowing the next generation to lead

Owner Considerations

Are successors prepared, willing, and aligned?

Have expectations been clearly communicated?

Has employment been separated from ownership?

The Rest of Today

- Family Business Transitions – Steve Staugaitis
- Selling to a Third-Party – Michael Lipschutz
- Employee Stock Ownership Plans (ESOPs) – Steve Feimster
- Tax Planning for Exits – Katrina Samarin
- State and Local Taxes in M&A – Reed Brown
- Next Steps and Action Items – Brian Sharkey

Today's Presenters



Reed Brown
Director, State & Local Tax



Brian Sharkey
Director-in-Charge, Transaction
Advisory & Business Valuation



Steve Feimster
Director, Audit & Accounting,
ESOP Group Co-Leader



Steve Staugaitis
Director, Audit & Accounting, Small Business
Advisory Services Group Leader, Family-Owned
Businesses Group Leader

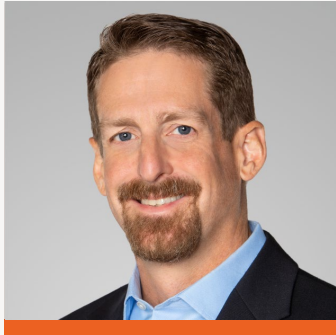


Michael Lipschutz
Director, Transaction Advisory



Katrina Samarin
Director, Tax Strategies,
ESOP Group Co-Leader

Contact the Presenter



Brian J. Sharkey, CPA, CVA, CEPA

DIRECTOR-IN-CHARGE, TRANSACTION ADVISORY & BUSINESS VALUATION

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Brian is the Director-in-Charge of Kreischer Miller's Transaction Advisory & Business Valuation group, which offers an array of services including M&A/transaction advisory, business valuation, transition/exit planning, and ESOP consulting.

Brian is experienced in business valuations, transition planning, due diligence, and merger and acquisition activities. He helps his clients by actively working with them to solve issues, provide recommendations, and offer opportunities for success. Brian's experience includes working with a variety of privately-held and family-owned businesses such as manufacturers, distributors, professional service companies, and SaaS based organizations.

In addition, Brian has a wide range of experience providing audit, review, and tax strategies & services to closely-held corporations. He also serves as a member of the firm's Manufacturing Industry group as well as in the ESOP specialty area.

Navigating Family Business Transitions

June 4, 2026

Steve Staugaitis, Director, Audit & Accounting, Small Business
Advisory Services Group Leader, Family-Owned Businesses
Group Leader









Agenda

1. Family Business Survey Data Highlights
2. Elements of a Succession Plan
3. Elements of a Family Business Transition Plan
4. Financial Capacity
5. Common Pitfalls
6. Transfer Methods
7. Summary of a Family Business Transition Case Study



Data from Our 2022 Survey Report

WHAT IS THE LIKELY TRANSITION PLAN FOR THE COMPANY?

| | | | | | |
|---|--------------|----------------------------|---|-------------|-----------------------------|
|  | 52.7% | Transfer to family members |  | 8.3% | Form an ESOP |
|  | 18.1% | Sell to a third party |  | 4.2% | Sell to the management team |
|  | 15.3% | No transition plan |  | 1.4% | Other |

NEXT GENERATION

39.0% of respondents have a formal development and mentoring plan for their next generation leaders.

45.9% of respondents indicated that they **do not** have a management succession plan in place. They revealed that **the biggest obstacles in creating one** have been the following:

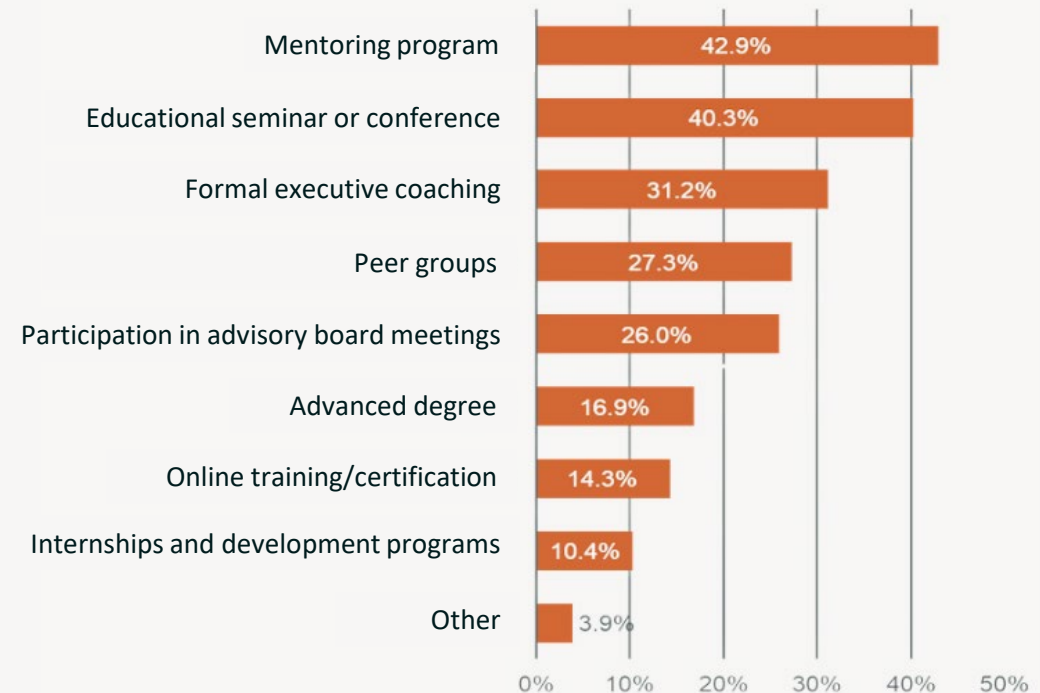


Data from Our 2022 Survey Report

NEXT GENERATION

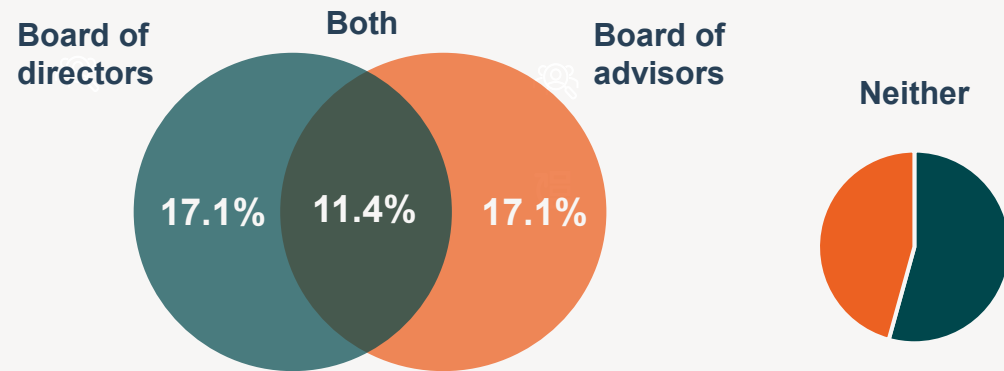
39.0% of respondents have a formal development and mentoring plan for their next generation leaders.

NEXT GENERATION DEVELOPMENT ACTIVITIES:



Data from Our 2022 Survey Report

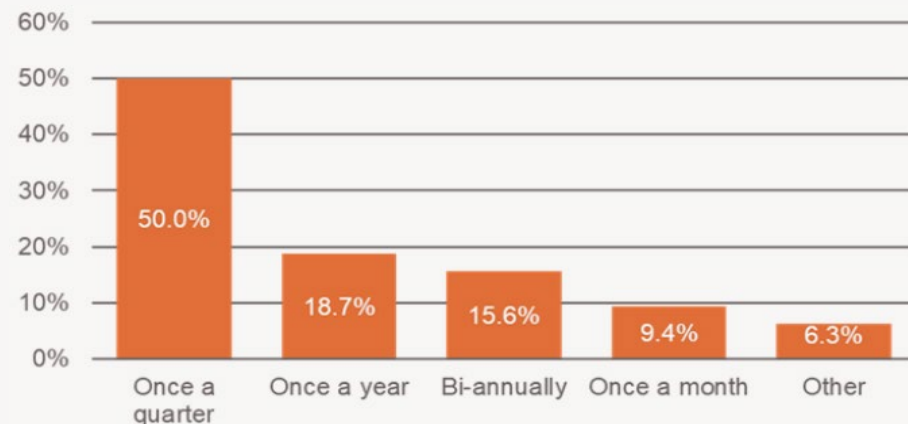
DO YOU HAVE A BOARD OF DIRECTORS OR BOARD OF ADVISORS?



Governance

- What committees does your board have?
- How many board members do you have?
- Describe the composition of your board.

HOW OFTEN DOES YOUR BOARD MEET?



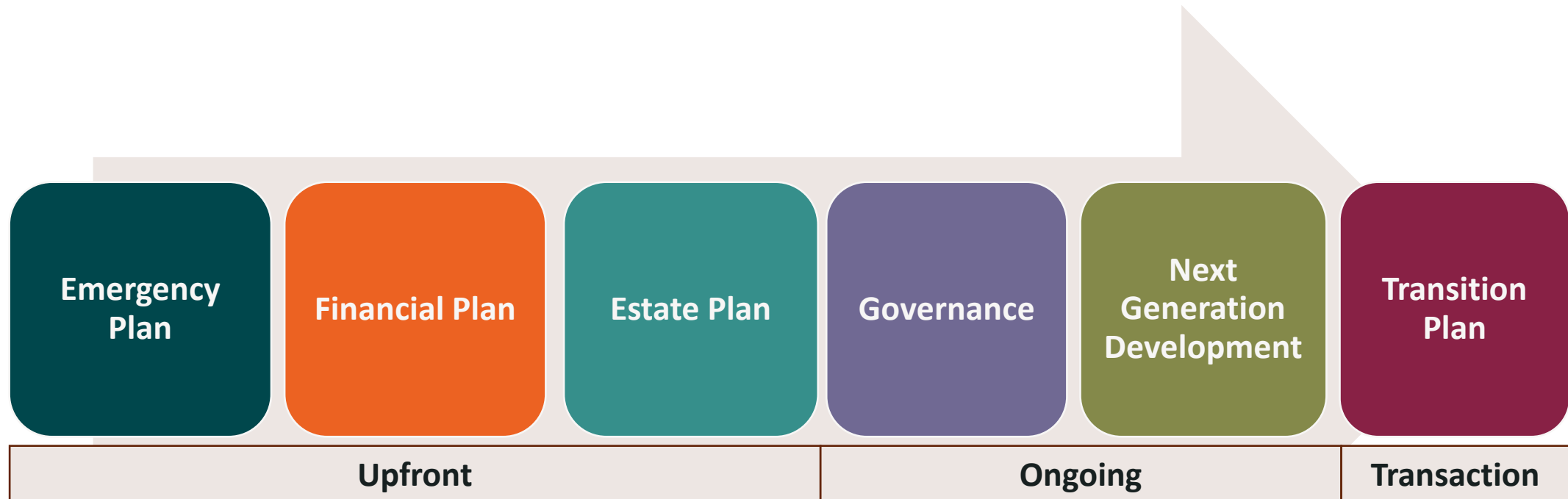
WHAT IS YOUR AVERAGE ANNUAL COMPENSATION PER BOARD MEMBER?



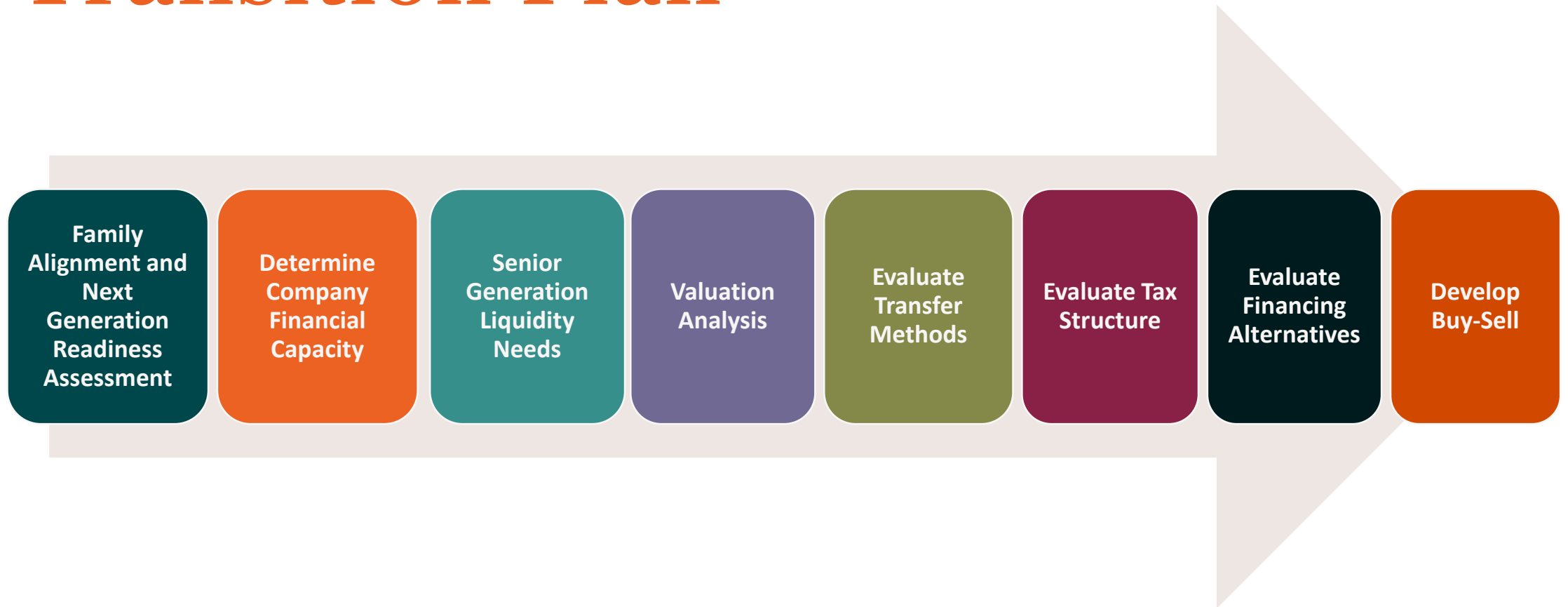
Coming Soon...



Elements of a Succession Plan



Work Steps of a Family Transition Plan



Work Steps

- 1. Family Alignment and Next Generation Readiness Assessment** – Determination that the family has done the proper senior and next generation work to prepare for transition and has goal congruency and clarity on wanting to move forward toward a transition of the family business from a management, leadership and ownership perspective. Assist in evaluating the readiness of the next generation by completing behavioral assessments of key stakeholders, preparing customized position profiles, and leveraging proprietary framework through the Predictive Index.
- 2. Determine Financial Capacity of the Company** – Analyze the company's last 3-5 years financials to understand its balance sheet structure, financial condition, earnings, and cash flows. The purpose of this analysis is to determine the company's ability to fund a transaction.
- 3. Evaluate Senior Generation Liquidity Needs** – Work with your senior generation family members to assist them in clarifying the amount of money and/or future income streams desired from a transfer.
- 4. Perform Valuation Analysis** – Develop a range of values for the parties to consider for the business and/or real estate and facilitate discussions between the parties towards an agreement on the value of the business given proper consideration of the needs of the senior generation and the company's financial ability to fund a transaction.

Work Steps (cont.)

5. **Evaluate Transfer Methods** – Evaluate alternative transfer methods and transaction structures to determine which ones best fit the case to meet your overall objectives at the company and individual level.
6. **Evaluate and Analyze Tax Structure** – Evaluate related tax consequences of various transfer methods and their effect on the company and the individuals involved with the purpose of achieving the best after-tax returns.
7. **Evaluate Financing Alternatives and Structure** – Evaluate the company’s ability to finance a transaction and assist the company in making a financing decision and set terms of the financing for the transaction. This may involve assisting the company in making a request to the bank and reviewing term sheets.
8. **Develop Buy-Sell Agreement** – Assist the new owners in establishing a properly structured and funded buy-sell agreement to protect the company and their families going forward. This document outlines the financial terms of how the new business partners intend to deal with each other from a business and financial standpoint.

Evaluate What the Company Can Currently Afford

- Impact of transaction on existing business
 - Cash flows
 - Leverage
 - Bank covenants

Evaluate Impact on Your Company - Current

SAMPLE ILLUSTRATION JUSTIFICATION OF PURCHASE

DRAFT - FOR ILLUSTRATION PURPOSES ONLY

CASH FLOW ANALYSIS

| | YEAR | |
|---|--------|-------------------|
| | 2022 | |
| EBITDA | 0.0% | \$ 1,000,000 |
| Less: Existing debt service | | (125,000) |
| Add: Stockholder Annual Salary | | 350,000 |
| Less: Deferred Compensation | | (150,000) |
| Less: Payroll Taxes - Deferred Compensation | | (30,864) |
| Less: Board fees | | - |
| Less: Rent payments | | - |
| Less: Distributions - Seller Held Notes Payable | | - |
| Less: Debt Service - Redemption Note Payable | | (286,377) |
| Cash Flow After New Capital Structure (Pre-Tax) | | 757,759 |
| Add: Principal - Seller Held Notes Payable | | - |
| Add: Principal - Note Payable | | 177,917 |
| Taxable Cash Flow | | 935,677 |
| Income Taxes | 32.67% | (305,686) |
| Cash Flow After Debt Service and Taxes | | \$ 452,073 |
| EBITDA (after distributions) | | \$ 694,314 |
| Debt Service (on books of company) | | 411,377 |
| Coverage Ratio | | 1.69 |

SAMPLE ILLUSTRATION SUMMARY BALANCE SHEET December 31, 2022

DRAFT - FOR DISCUSSION PURPOSES ONLY

| | 2022 | Transaction | Adjusted 2022 |
|---|---------------------|-------------|---------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash | \$ 200,000 | \$ - | \$ 200,000 |
| Accounts receivable, net | 3,750,000 | - | 3,750,000 |
| Inventories, net | 3,000,000 | - | 3,000,000 |
| Other current assets | 150,000 | - | 150,000 |
| Total current assets | 7,100,000 | - | 7,100,000 |
| Property and equipment, net | 1,250,000 | - | 1,250,000 |
| TOTAL ASSETS | \$ 8,350,000 | \$ - | \$ 8,350,000 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current Liabilities | | | |
| Line of credit | \$ 50,000 | \$ - | \$ 50,000 |
| Current portion of long-term debt | 125,000 | 177,917 | 302,917 |
| Accounts payable | 1,250,000 | - | 1,250,000 |
| Accrued expenses | 950,000 | - | 950,000 |
| Deferred compensation, current | - | 150,000 | 150,000 |
| Total current liabilities | 2,375,000 | 327,917 | 2,702,917 |
| Notes payable, long-term | 1,750,000 | 2,072,083 | 3,822,083 |
| Deferred compensation, long-term | - | 1,008,260 | 1,008,260 |
| Total liabilities | 4,125,000 | 3,408,260 | 7,533,260 |
| Stockholders' Equity | | | |
| Common stock | 5,000 | - | 5,000 |
| Retained earnings | 2,720,000 | (1,158,260) | 1,561,740 |
| Additional paid-in capital | 1,500,000 | - | 1,500,000 |
| Treasury stock | - | (2,250,000) | (2,250,000) |
| Total stockholders' equity | 4,225,000 | (3,408,260) | 816,740 |
| TOTAL LIABILITIES AND EQUITY | \$ 8,350,000 | \$ - | \$ 8,350,000 |

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| | | |
|------------------------------|------|------|
| Current Ratio | 2.99 | 2.63 |
| Funded Total Debt to EBITDA | 1.93 | 5.33 |
| Funded Senior Debt to EBITDA | 1.93 | 4.18 |
| Senior Debt to Equity | 0.46 | 5.11 |
| Total Debt to Equity | 0.98 | 9.22 |

(max 2.5)

(max 3.0)

(max 4.0)

Evaluate Impact on Your Company - Future

Impact of transaction on future business:

- Funding of transaction and ability to repay
- Financial projection
- Stress-test assumptions
- Bank covenants

Evaluate Impact on Your Company - Future

SAMPLE ILLUSTRATION JUSTIFICATION OF PURCHASE

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CASH FLOW ANALYSIS

| | YEAR | | | | | | | | | | | |
|---|--------|-------------------|-------------------|-------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | |
| EBITDA | 0.0% | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 |
| Less: Existing debt service | | (125,000) | (350,000) | (350,000) | (700,000) | - | - | - | - | - | - | - |
| Add: Stockholder Annual Salary | | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| Less: Deferred Compensation | | (150,000) | (150,000) | (150,000) | (150,000) | (150,000) | (150,000) | (150,000) | (150,000) | (150,000) | (150,000) | - |
| Less: Payroll Taxes - Deferred Compensation | | (30,864) | - | - | - | - | - | - | - | - | - | - |
| Less: Board fees | | - | - | - | - | - | - | - | - | - | - | - |
| Less: Rent payments | | - | - | - | - | - | - | - | - | - | - | - |
| Less: Distributions - Seller Held Notes Payable | | - | - | - | - | - | - | - | - | - | - | - |
| Less: Debt Service - Redemption Note Payable | | (286,377) | (286,377) | (286,377) | (286,377) | (286,377) | (286,377) | (286,377) | (286,377) | (286,377) | (286,377) | - |
| Cash Flow After New Capital Structure (Pre-Tax) | | 757,759 | 563,623 | 563,623 | 213,623 | 913,623 | 913,623 | 913,623 | 913,623 | 913,623 | 913,623 | 1,350,000 |
| Add: Principal - Seller Held Notes Payable | | - | - | - | - | - | - | - | - | - | - | - |
| Add: Principal - Note Payable | | 177,917 | 187,020 | 196,588 | 206,646 | 217,219 | 228,332 | 240,014 | 252,293 | 265,201 | 278,769 | - |
| Taxable Cash Flow | | 935,677 | 750,643 | 760,211 | 420,269 | 1,130,842 | 1,141,955 | 1,153,637 | 1,165,916 | 1,178,824 | 1,192,392 | 1,350,000 |
| Income Taxes | 32.67% | (305,686) | (245,235) | (248,361) | (137,302) | (369,446) | (373,077) | (376,893) | (380,905) | (385,122) | (389,555) | (441,045) |
| Cash Flow After Debt Service and Taxes | | \$ 452,073 | \$ 318,388 | \$ 315,262 | \$ 76,321 | \$ 544,177 | \$ 540,546 | \$ 536,730 | \$ 532,718 | \$ 528,501 | \$ 524,068 | \$ 908,955 |
| EBITDA (after distributions) | | \$ 694,314 | \$ 754,765 | \$ 751,639 | \$ 862,698 | \$ 630,554 | \$ 626,923 | \$ 623,107 | \$ 619,095 | \$ 614,878 | \$ 610,445 | \$ 558,955 |
| Debt Service (on books of company) | | 411,377 | 636,377 | 636,377 | 986,377 | 286,377 | 286,377 | 286,377 | 286,377 | 286,377 | 286,377 | - |
| Coverage Ratio | | 1.69 | 1.19 | 1.18 | 0.87 | 2.20 | 2.19 | 2.18 | 2.16 | 2.15 | 2.13 | - |

Common Pitfalls on a Transition Plan

- ✓ Structuring a plan that focuses solely on the financial needs of the exiting generation
- ✓ Modeling out only growth assumptions in the cash flows for the business
- ✓ Not factoring in the impact of a transaction on banking covenants
- ✓ Not leveraging the resources, tools, and experience of advisors
- ✓ Not being flexible with the timing and structure of the transition
- ✓ Underestimating the time it takes to think through the options and perform the analysis
- ✓ Spending too little time on understanding the collective goals and objectives

Sample Transfer Methods



Family Gift

- Simple transaction
- No cash flow
- Low business risk
- High tax efficiency



Deferred Compensation

- Moderate complexity
- Provides cash flow
- Moderate business risk
- High tax efficiency



Seller-Held Note

- Simple transaction
- Provides cash flow
- Moderate business risk
- Lower tax efficiency



Bank Note

- Moderate complexity
- Provides cash flow
- Moderate business risk
- Lower tax efficiency



Other Payments

- Moderate complexity
- Provides cash flow
- Moderate business risk
- High tax efficiency

Case Study: Family Business Transition

BACKGROUND:

- 2nd generation family business – founded by both parents
- Two G2 family members working in the business – two G2 family members do not
- Parents looking to mostly retire mainly due to health issues, but still want to have some active involvement
- One parent health crisis in middle of planning caused re-evaluation
- Parents struggling to give up control
- Two children working in the business had some sibling matters to resolve – mainly centered around communication
- Sibling relationship issues between the two working in the business and one of the siblings outside the business
- Real estate was owned in a separate company

FAMILY GOALS:

- Parents want opportunity for next generation and do not want employees' jobs to be at risk in a third-party sale
- Parents want an ability to stay involved in some capacity
- Parents want children to have some skin in the game
- Family does not want the transition to over-stress the company
- Family wants to be tax-efficient with the structure and willing to be flexible to achieve this
- Parents want transaction to be consummated at a fair price
- Family wants ownership to be retained with children working in the business
- Parents want to treat all four children equitably

Case Study: Family Business Transition

ADVISORS IN THE TRANSACTION:

- **Financial advisor** (retirement planning for parents; life insurance on siblings for buy-sell agreement)
- **Estate attorney** (estate planning and rebalancing for parents)
- **Corporate attorney** (structure evaluation and drafting various corporate documents)
- **Accountant** (company valuation, cash flow analysis of transaction, tax analysis, structure evaluation)
- **Family advisor** (sibling matters)
- **Commercial lender** (debt management and personal guarantees of parents)

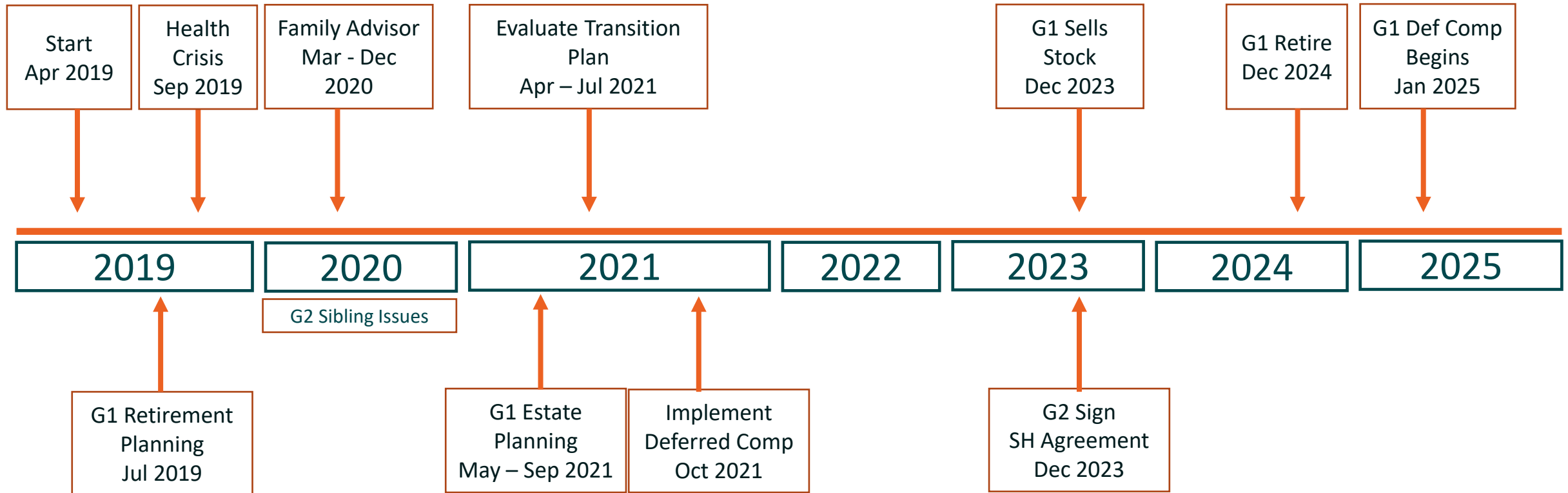
ACTION STEPS AND RESULTS:

- Parents engaged in retirement planning early in the process
- Evaluated and implemented a deferred compensation arrangement for working parent
- Need to sell stock of unhealthy parent – seller held note payable for a 15-year period to manage cash flows on company
- Parents retain real estate for income and estate rebalancing
- Family advisor worked through sibling issues
- Parents updated estate planning
- Buy-sell agreement established for new owners reflecting their intentions

Timeline: Approximately 6 years from start through implementation

Result: G2 owns operating company; parents receiving payment stream to sustain lifestyle

Case Study Timeline





Questions?

Contact the Presenter



Steven E. Staugaitis, CPA, CVA

DIRECTOR, AUDIT & ACCOUNTING, SMALL BUSINESS ADVISORY SERVICES GROUP
LEADER, FAMILY-OWNED BUSINESSES GROUP LEADER

sstaugaitis@kmco.com

Steve is the Director-In-Charge of Kreischer Miller's Small Business Advisory practice, which provides integrated accounting, tax, and advisory services exclusively to small and mid-size privately-held companies, many of which are family-owned. He also serves as the leader of the firm's Family Business practice. Steve has a wide range of experience providing accounting, tax, and business advisory services, which enables him to serve as a key advisor to his clients. He has worked with clients in a variety of industries, including manufacturing, distribution, construction, and various service organizations. As part of his role as an advisor, Steve helps companies analyze and understand their financial position, assists with evaluating acquisition opportunities, evaluates and structures transition plans, completes business valuations, and provides insight into company buy-sell agreements.

Selling Your Business: Beyond the Numbers

June 4, 2026

Michael Lipschutz, Director, Transaction Advisory



Agenda

1. Five overlooked non-financial deal risks
2. Actionable steps to reduce risk and increase buyer confidence

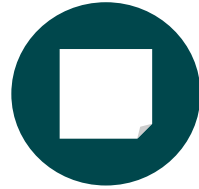


Diligence Considerations



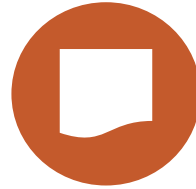
Financial

Quality of earnings, EBITDA adjustments, working capital



Tax

Structure review, exposure analysis, compliance



Legal

Contracts, IP, litigation, entity structure



Commercial

Market position, customers, competitive landscape



Operational

Processes, systems, supply chain, scalability



IT / Technology

Infrastructure, cyber security, data systems



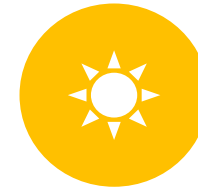
HR / People

Key personnel, retention, compensation, culture



Insurance

Coverage adequacy, claims history, policy review



Environmental

ESG compliance, liabilities, sustainability

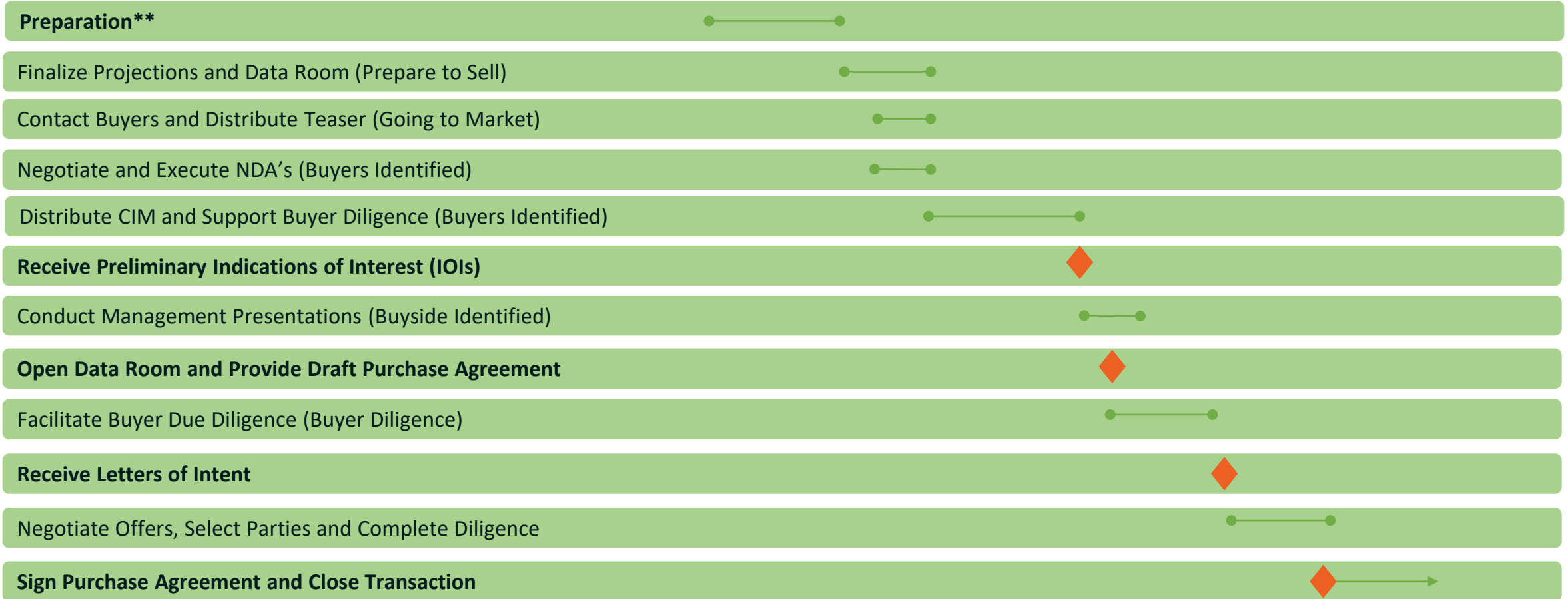


Regulatory

Licenses, permits, industry compliance

Deal Timeline

Initial Prep Month 1 Month 2 Month 3 Month 4 Month 5



Note: Above timeline can vary depending on the type of business as well as various other factors.

** Preparation stage may take months to years



Reality of the Sales Process

5-12 months

Typical sales timeline with constant scrutiny from buyers and their diligence teams

Sustainability + Transferability + Risk
Core buyer focus area

- Operations must continue through diligence—no pause button
- Deal fatigue
- Buyers underwrite your future, not your past
- Deals fail from late uncertainty, not price



Why Deals Actually Break

**Rarely
about
valuation**

**Usually
about
uncertainty**

**Lender
scrutiny**

- Late diligence surprises kill deals, not price disagreements
- Lenders add a second layer of scrutiny beyond the buyer
- Concentration risk and weak contracts directly threaten financing
- Lost confidence triggers reactions from both buyer and lender



Five Overlooked Issues

Revenue Quality

Customer concentration and contract strength

Owner Dependency

Business continuity without founder

Operational Gaps

Process documentation and systems

Legal Messiness

Contract and IP clarity

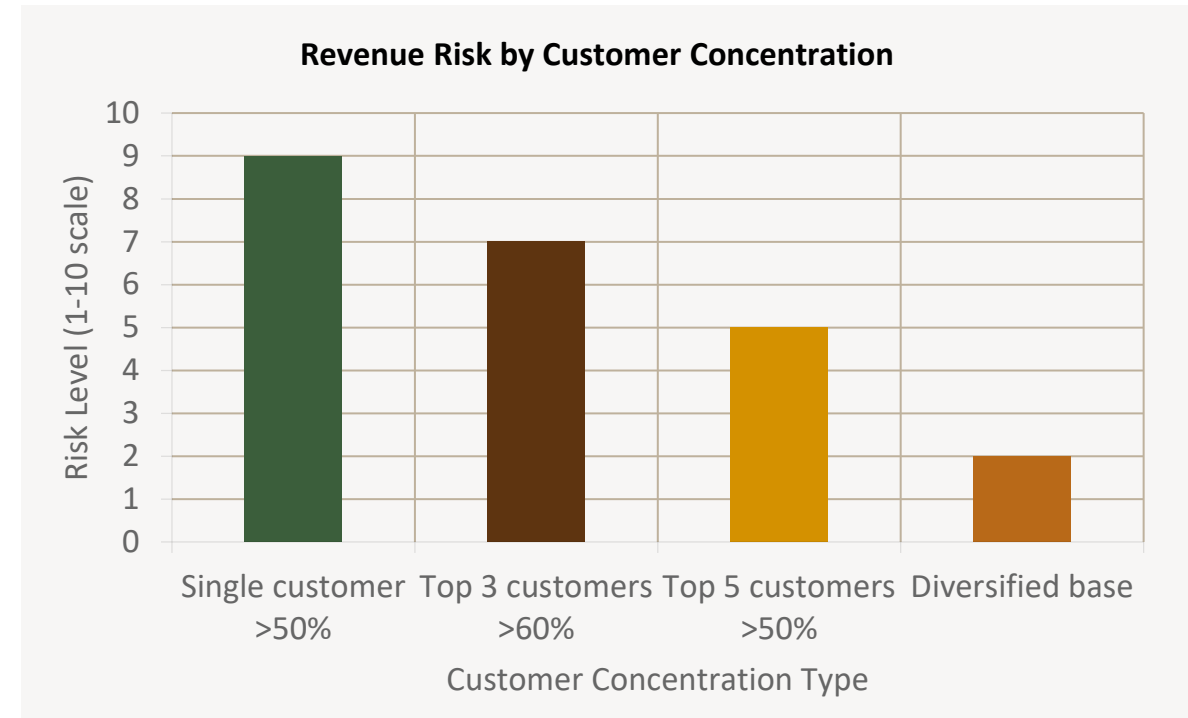
People Risk

Team depth and retention

- Top customer concentration and weak contracts signal revenue risk
- Owner as the business — key relationships without leadership depth
- Undocumented processes undermine repeatability and scalability
- Legal gaps — unsigned contracts, unclear IP, messy entity structure
- Shallow teams without retention plans signal people risk

Customer Concentration & Revenue Quality

- Heavy reliance on few customers raises red flags or derails deals
- Concentration pressures valuation and limits lender leverage
- Handshake relationships create transfer uncertainty
- Diversification, contract strength, and predictability drive value
- Buyers care how sticky the revenue truly is
- Revenue quality, not just quantity, ultimately drives value



What Buyers Ask **About Revenue**

Key Questions

- What happens if top customers leave post-transaction?
- Are contracts assignable to new owner?
- Is revenue contract-based or relationship-driven?
- Is revenue generated based upon any business classifications?

Impact

- Unclear retention answers lead to earn-outs and discounts
- Consent requirements can delay or complicate closing
- Relationship-driven revenue signals higher risk than recurring contracts



Owner Dependency



Owner = sales + relationships

Dependency indicator

Central decision maker

Control concentration

No leadership depth

Succession risk

- Owner-held relationships can raise transferability concerns
- Owner centrality can drive longer earn-outs or lost deals
- Founder dependence means a role, not a transferable enterprise
- Early delegation demonstrates operational independence

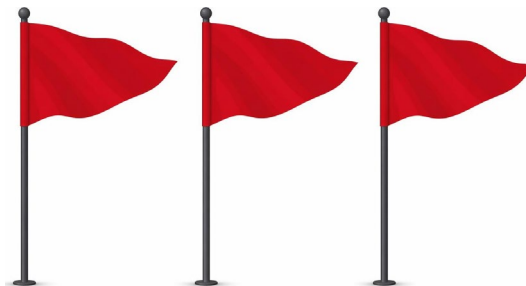
Red Flags & Fixes For Owner Risk

Red Flags

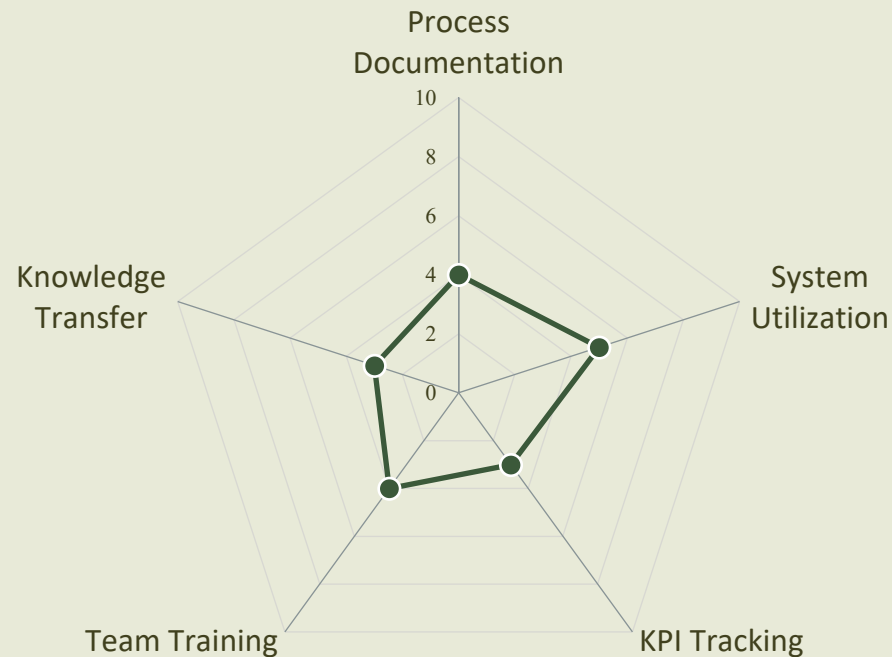
- 3-5 year earn-outs may signal the business isn't transfer-ready
- Extended transition periods can reflect lack of founder-free confidence
- Earn-out structures tie value to individuals, not systems

Solutions

- Transition key relationships to team members early
- Delegate decision-making to show founder independence and revisit titles
- Buyer confidence enables shorter transitions and higher upfront value



Operational Maturity Assessment



Operational Instability

- Businesses run well but lack documented, repeatable structure
- Operational gaps slow diligence and raise repeatability questions
- Buyers purchase repeatability—visible systems and documented processes
- Missing structure reduces buyer confidence in post-acquisition scalability

Operational Fixes

- Small improvements — SOPs, systems, KPIs — significantly reduce perceived risk
- More operational visibility means fewer surprises during diligence
- You need visible, repeatable systems — not perfect ones
- Operational discipline signals maturity and transition readiness

Document SOPs

Capture key processes in writing



Use Systems Consistently

Apply CRM and ERP with discipline



Track KPIs Regularly

Monitor performance metrics

Legal & Structural Messiness

Unsigned contracts

Documentation gap

IP issues

Ownership uncertainty

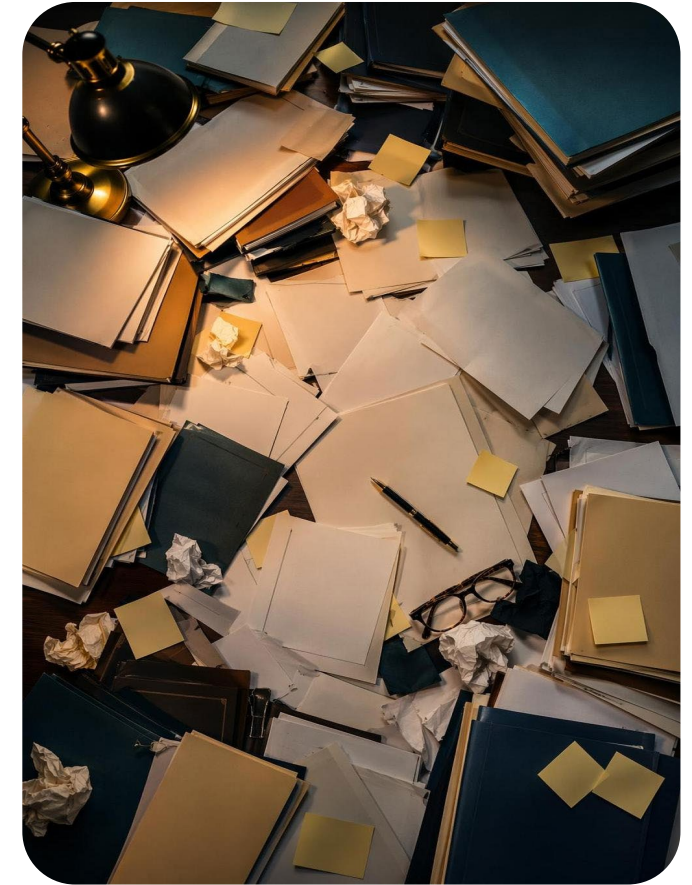
Related-party transactions

Structure complexity

Entity inconsistencies

Legal clarity

- Legal messiness creates the most friction in transactions
- Unsigned contracts raise enforceability and transfer questions
- Unclear IP ownership becomes a major sticking point
- Related-party issues and entity inconsistencies cause costly delays



People Risk

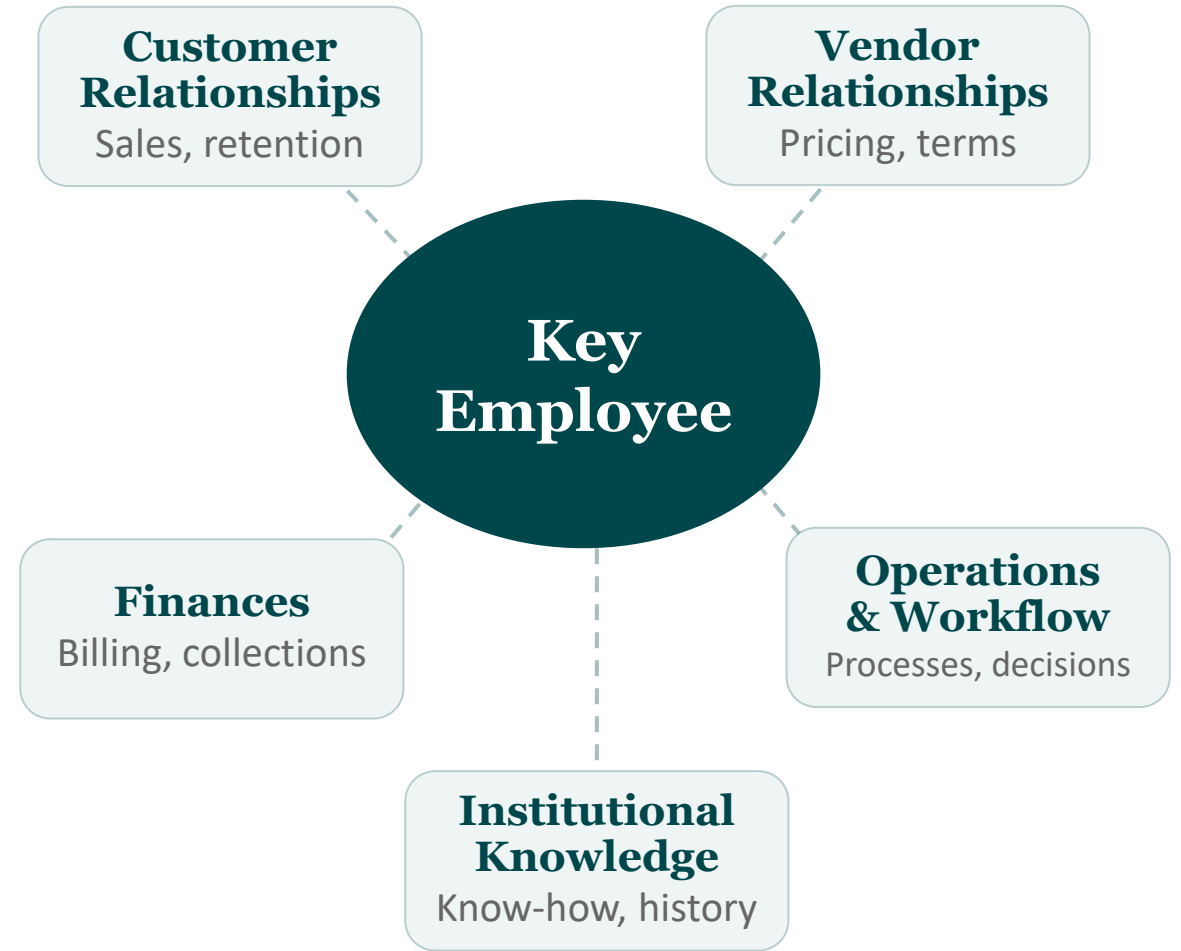
Key employee retention risk

Critical success factor

Middle management weakness

Organizational risk

- Buyers evaluate who the key people are and whether they'll stay
- One key employee often holds together critical operations
- Buyers bet on a workforce, not just a business



What to Do Next

Document customers/contracts

Formalize key relationships

Reduce owner involvement

Delegate and transition

Build team structure

Develop leadership depth

Clean up legal

Address contracts and IP

Think like buyer

Identify risks early

- Formalize all customer and vendor contracts with clear transferability terms
- Reduce owner involvement by delegating relationships and authority
- Build leadership depth so no single person is critical
- Clean up legal issues before they surface in diligence
- Assemble your team

Where **Quality of Earnings** Fits

Validates

Confirms reported earnings accuracy



Identifies

Finds EBITDA adjustments needed



Surfaces

Reveals risks requiring attention

- Quality of Earnings validates earnings and surfaces risks
- Obtains an understanding on customers and vendors
- Identifies concentrations and issues
- Obtains an understanding on personnel and role and responsibilities
- QoE issues translate directly into valuation or structural adjustments
- Address potential issues before they become transaction obstacles

Key Takeaways

Value = confidence

Deal success formula

Preparedness reduces risk

Action principle

Certainty > Price

Transaction priority

- Successful transactions minimize uncertainty, not just maximize price
- Getting across the finish line requires addressing sustainability and transferability
- The best deals are the most certain, with fewer surprises
- Preparing the business for sale gives you control over the outcome
- Build your team

Contact the Presenter



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Michael is a Director in Kreischer Miller's Transaction Advisory Group. Michael has over 20 years of experience, currently specializing in providing financial due diligence for buyers and sellers, quality of earnings, net working capital analysis, purchase agreement recommendations, and merger and acquisition services to his clients. He has advised on a variety of complex transactions, including carve-outs, recapitalizations, and rollups.

Michael is a member of the Alliance of Mergers and Acquisition Advisors (AM&AA) and Exit Planning Exchange (XPX).

Michael's experience includes working with a variety of privately-held and family-owned businesses such as laboratory testing service providers, manufacturers, distributors, construction, professional service companies, technology companies, staffing firms, healthcare and government contractors.

ESOPs as a Strategic Exit Option

June 4, 2026

Steve Feimster, Director, Audit & Accounting, Manufacturing & Distribution Industry Group Co-Leader, ESOP Group Co-Leader



Agenda

1. ESOP Overview & Mechanics
2. Advantages & Disadvantages
3. Tax Benefits



What is an **ESOP**?

- Employee **Stock Ownership Plan**
- Qualified retirement plan under IRS
- Only qualified retirement plan that can borrow money
- Company funded only, no employee contributions
- Employees do **NOT** own the stock, but they do have a financial interest
- No corporate financial disclosure to employees required except in limited circumstances



Why Use An ESOP?

- **Shareholder Liquidity:** Create a market for part or all of the owners' stock
- **Shareholder Tax Minimization:** Defer payment of capital gains taxes in some instances
- **Control:** Does not require change in management or board of directors (ESOP can buy any percentage between 1% and 100% and does not have to control the company)
- **Corporate Tax Minimization:**
 - Effectively create interest AND principal payment tax deductions
 - S corporation ESOP federal income tax exemption
- **Legacy:** Maintain company's independence and local employee base
- **Employees:** Motivate, retain and reward employees
- **Perpetual and Flexible Market for Stock:** Long term potential buyout solution



ESOPs in the US

- Today, there are approximately 6,500 ESOPs in the US employing 15 million workers
- Total ESOP plan assets are almost \$1.8 trillion
- Industries with the highest ESOP prevalence (% of total):
 - 21% Manufacturing
 - 19% Professional Services firms
 - 16% Construction (Up from 11%)
 - 14% Finance/Insurance/Real Estate
- The vast majority of ESOPs are in private companies
 - There are about 530 public companies with ESOPs
- Most ESOPs have less than 100 employees
 - 57% - 100 employees or fewer
 - 43% - 101 employees or more

“The Trouble with ESOPs”...

Common Myths

| | |
|--|--------------|
| Employees own and vote the stock directly | FALSE |
| Employees will have access to sensitive financial info | FALSE |
| Employees will make corporate decisions | FALSE |
| All of the company’s stock must be sold to an ESOP | FALSE |
| A company has to be a C corp to sponsor an ESOP | FALSE |
| The valuation will be lower with an ESOP than with another kind of buyer | MAYBE |

ESOP Mechanics

Initial Transaction



Company establishes
an ESOP Trust



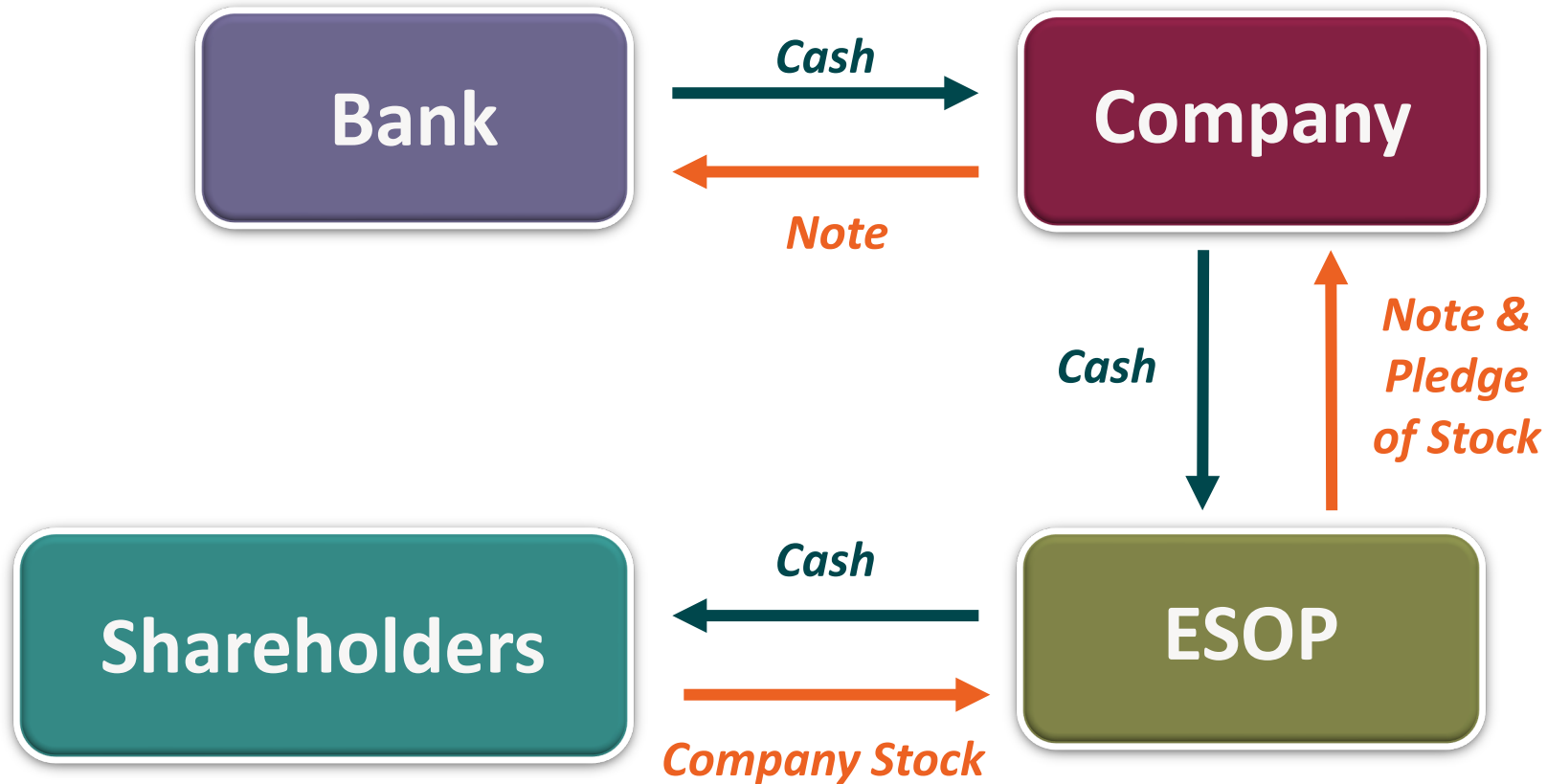
ESOP Trust purchases
company stock from
shareholders or company

ESOP Trust holds shares for
exclusive benefit of
company's employees



Financing typically
provided by bank,
seller note, or
combination of the
two

Initial C Corporation ESOP Transaction



ESOP Mechanics

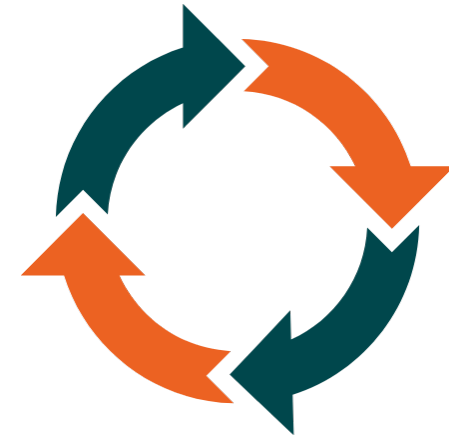
Ongoing Operation



Company pays contributions or dividends to ESOP



ESOP uses company contributions or dividends to repay debt



Company or ESOP repurchases shares from employees after separation of employment

Typical ESOP Transaction Structures

C Corporation

- One or more Section 1042 ESOP transactions to transfer most or all stock ownership to ESOP
- Common and preferred stock typically part of structure
- Synthetic equity (stock appreciation rights or phantom stock) granted to key management to allow key executives to own eventually 15-30% of economic value of entity outside ESOP
- S corporation ESOP election

S Corporation

- S corporation redemption of all of the stock held by current shareholders for cash and subordinated notes
- Common stock part of structure
- Synthetic equity (usually stock appreciation rights or phantom stock) granted to key management to allow key executives to own eventually 15-30% of economic value of entity outside ESOP
- Company uses S corporation tax-free operation to accelerate debt reduction

Advantages of an ESOP

Seller

- Receive **fair market value**
- **Flexible** exit strategy
- Ability to defer/eliminate capital gains **tax**
- Preserve **legacy** of company

Company

- **Tax advantaged** financing
- Potential for income tax free entity
- Potential to **enhance employee morale**, increase productivity and reduce turnover

Employees

- Non-contributory **retirement** account
- **Incentive** for employees
- **Ability to impact** value of company and therefore, value of accounts

...and positive impact on the community and local economy with **job preservation**.

Disadvantages of an ESOP

Seller

- Seller gets **price** closer to a financial buyer rather than a strategic buyer
- Seller often receives only **partial** liquidity at closing
- Requires active role in **training** employees to be owners

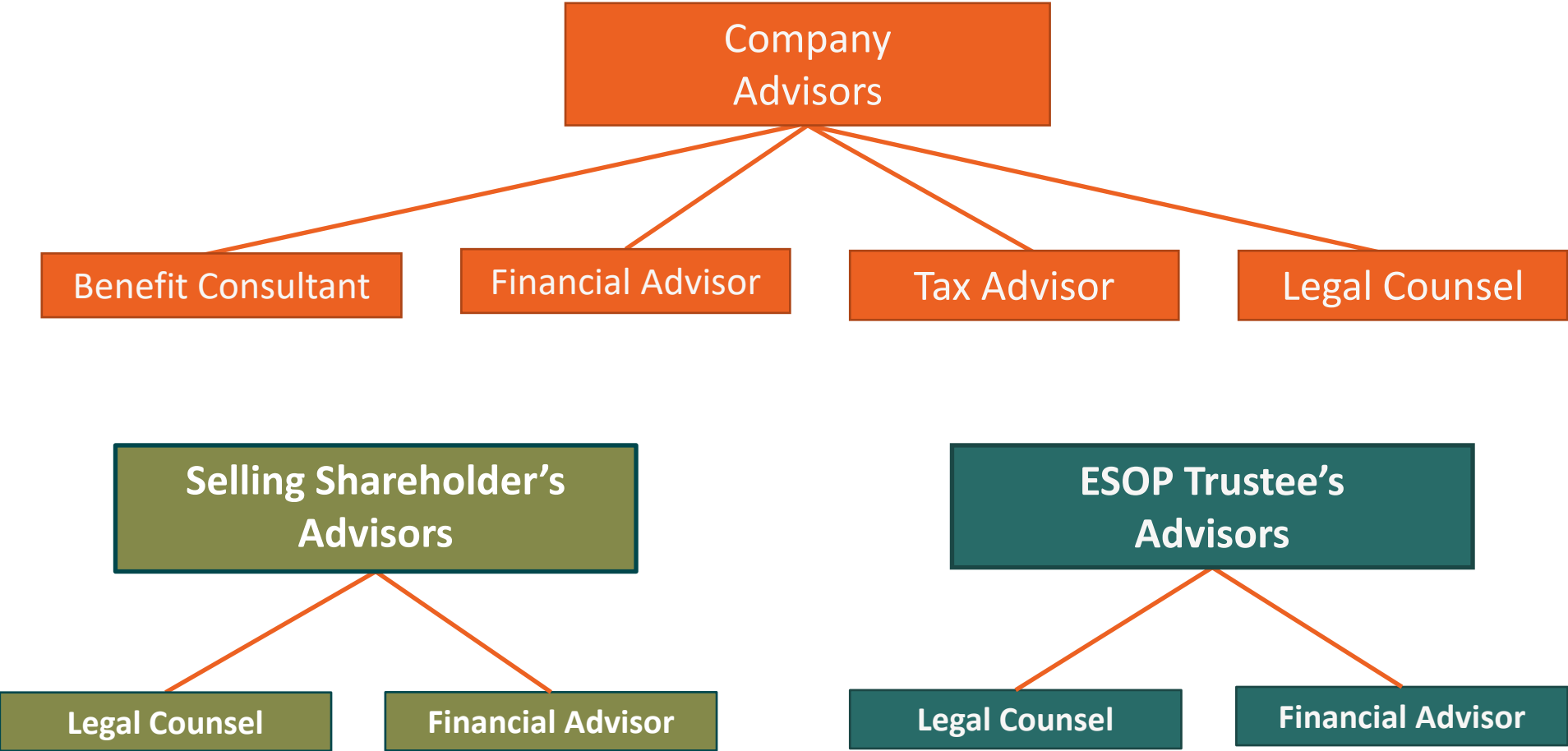
Company

- **Complexity**
- Financial **leverage** is usually high
- Repurchase obligation
- Highly **regulated**
- Ongoing **administration**

Employees

- Non-diversified retirement plan **risk**
- May not have 100% **liquidity** upon exit

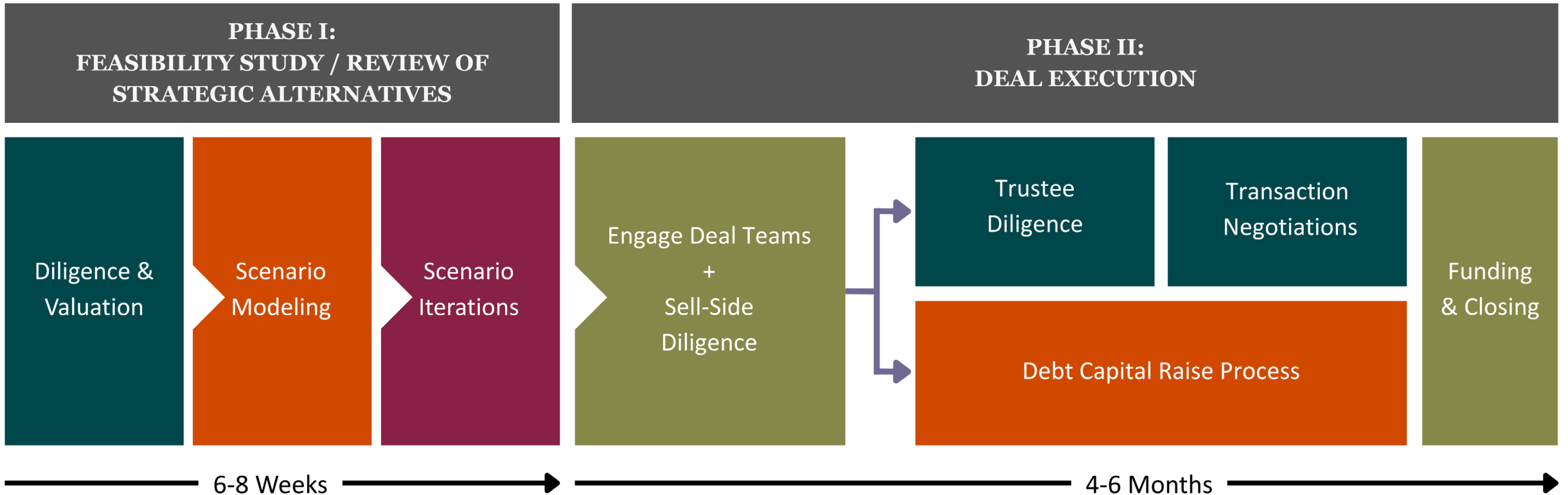
Advisors Involved in ESOP Transaction



Advisors After the ESOP Transaction



Initial Transaction **Timeline**



Tax Benefits



S Corporations owned by an ESOP are **tax-free** for federal and most state tax purposes



Selling shareholder may be able to defer (or eliminate) their tax gain by purchasing qualified replacement property with the proceeds from the sale



Deductibility of dividends paid by C corporations



Employees pay no tax on the contributions to the ESOP, only distributions from the ESOP

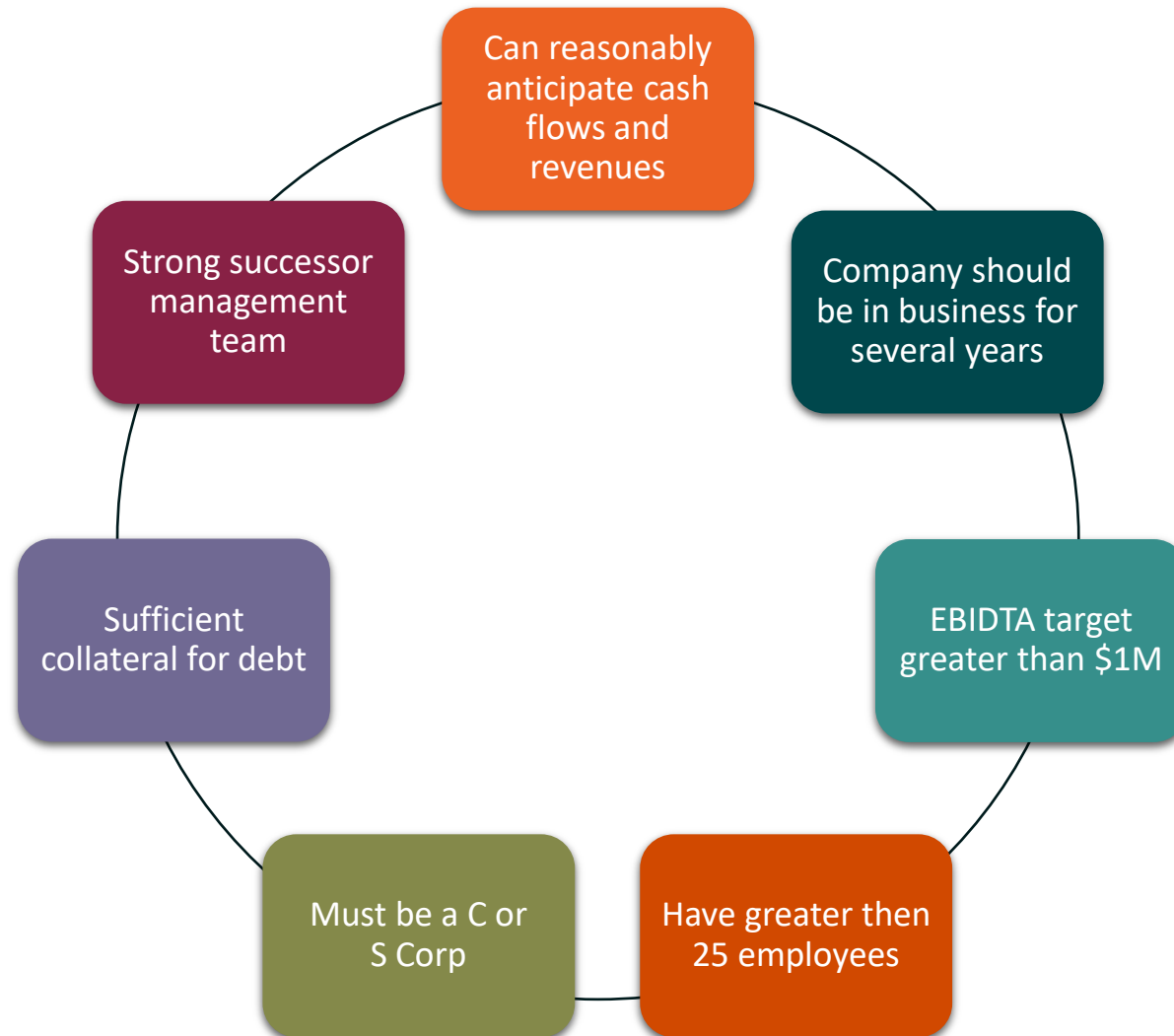
ESOP Coordination: Ongoing



Common Challenges with ESOPs

- Following a “best practices” process for the structuring and negotiation of an ESOP transaction
- Identifying experienced advisors
- Aligning ESOP features with other benefit plans
- Planning for and managing repurchase obligation
- Educating management team about unique ESOP financial structure
- Motivating key employees using both the ESOP and other incentive equity vehicles

Is an ESOP a **Good Fit** for Your Client?



Key Takeaways

- An ESOP transaction perpetuates the independence of the business.
- The design of the ESOP determines key features, including allocation of benefits and payout terms.
- The company's corporate advisors are critical elements in the ESOP transaction's success.
- Estate planning is a natural complement (and sometimes a driver) in an ESOP transaction.
- The ESOP will not prevent a sale to a third party in the future.



Contact the Presenter



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Steve is a Director in Kreischer Miller's Audit & Accounting group. He has a wide range of experience providing traditional audit and accounting services to a variety of businesses, including manufacturers, distributors, not-for-profits, and professional services organizations. Steve has also provided business advisory services, such as accounting department assessments, internal control reviews, and due diligence services for his clients. Steve is the co-leader of Kreischer Miller's Manufacturing & Distribution Industry Group as well as the ESOP group, and he serves on the firm's Not-for-Profit Industry Group. Steve has assisted his manufacturing and distribution clients in a variety of areas, including inventory management and control reviews, product and customer profitability assessments, and cost accounting analyses. As an ESOP specialist, Steve has presented at a number of industry events, including those sponsored by the ESOP Association and the National Center for Employee Ownership.

Break

Tax-Efficient Exit Planning: Estate and Income Tax Considerations

June 4, 2026

Katrina Samarin, Director, Tax Strategies, Manufacturing &
Distribution Industry Group Co-Leader, ESOP Group Co-Leader



Agenda

1. Overview of Tax-Efficient Exit Planning
2. Income Tax Drivers
3. Estate Planning Considerations
4. Actionable Exit Checklist



Overview of Tax-Efficient Exit Planning

Importance of Early Tax Planning

Starting tax planning well before a business exit can significantly reduce tax liabilities and increase retained value.

Impact of Transaction Structure

The form and timing of a transaction, like stock versus asset sales, critically affect the financial outcome and tax burden.

Integration of Estate Planning

Including estate planning prior to liquidity events ensures wealth transfer goals align with tax optimization strategies.

Strategic Tax Reduction Methods

Utilizing specialized tax provisions and entity considerations helps defer or reduce tax exposure during exit planning.

Pre-Transaction Planning

- Gifting / freeze
- Estate planning
- Ownership structure

QSBS (Section 1202)

- Structure-dependent
- Requires early planning

ESOP (Section 1042)

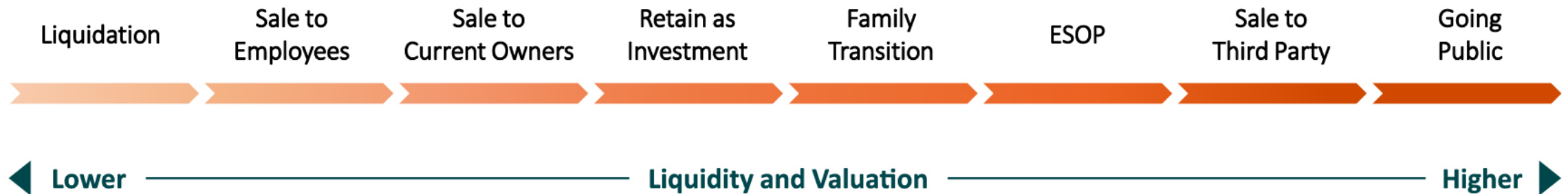
- Alternative exit path
- Transaction-specific

Sale to third party

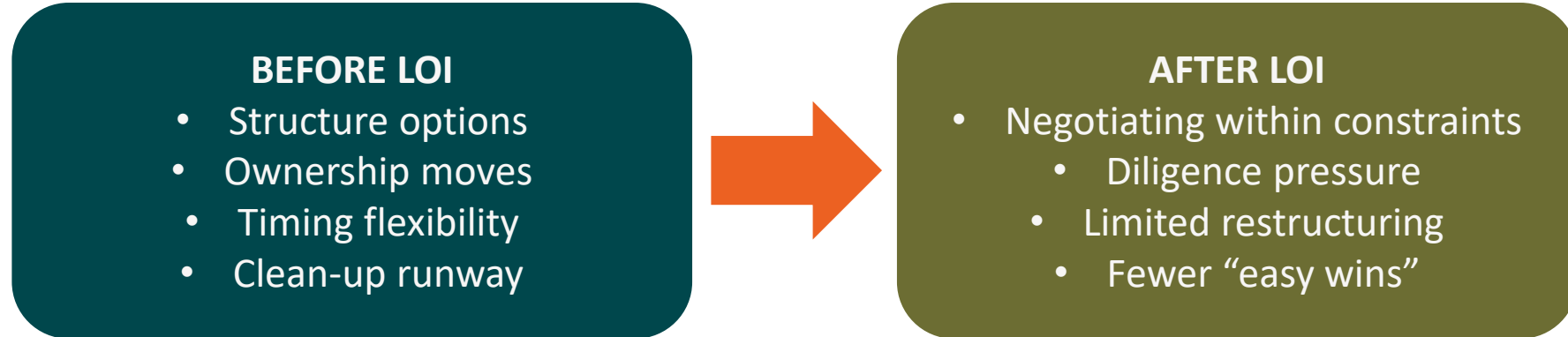
- Stock vs. asset structure
- Purchase price allocation
- Capital vs ordinary

Business Transfer Spectrum

Transfer Channels



Why Plan Before LOI



**Same purchase price ≠ same after-tax outcome.
Planning power is highest before LOI.**

Income Tax Drivers Overview

Deal Form

Stock vs. Asset

Entity Type

Pass-through vs. C Corp

Character

Capital vs. Ordinary

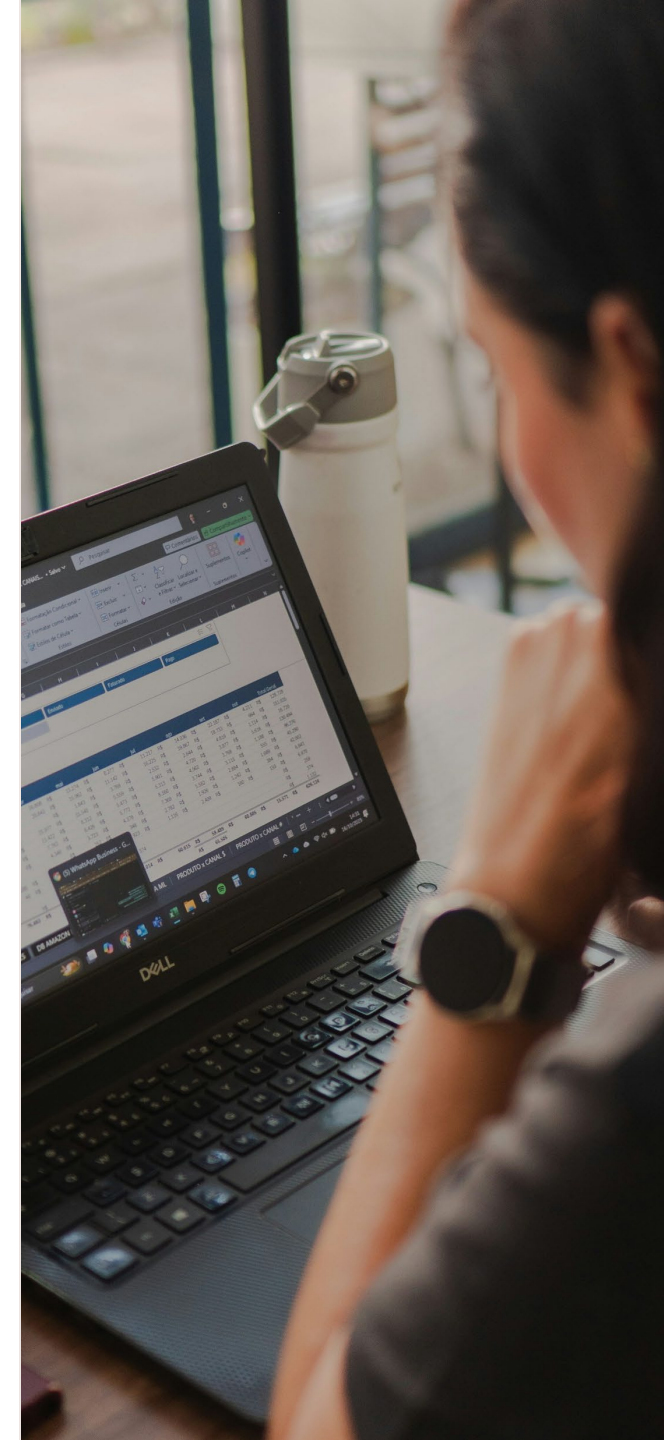
Timing/Deferral

When tax is paid

Model these four levers early—small changes can materially impact net proceeds.

Driver 1: Deal Structure

- Stock sale vs. asset sale drives tax outcome
- Buyers and sellers often have competing preferences
- Impacts pricing and negotiations



Driver 2: Entity Type

- Pass-through entities: one level of tax
- C corporations: potential double taxation
- Entity structure may be evaluated years in advance

Tax-Efficient Exit Paths

Two tax-efficient exit paths worth screening early:

Before moving forward with a transaction...

Ask: Are there opportunities to reduce or defer tax?

→ QSBS (exclusion)

→ Section 1042 (deferral)

These strategies are highly dependent on structure— and are typically identified before early in the transition.

Qualified Small Business Stock (QSBS) – Section 1202



Key takeaway: QSBS is eligibility-driven — screen it early if you’re a C Corp (or considering becoming one).

Section 1042 (ESOP) – Capital Gain Deferral



Key takeaway: §1042 is transaction-structure dependent — evaluate early if an ESOP is on the table.

Section 1042 - Example

Assumptions:

Sales price =
\$10,000,000

Shareholder
stock basis =
\$2,500,000

| | Sale to Third Party | Sale to ESOP |
|------------------------------------|---------------------|------------------|
| Selling Price | \$ 10,000,000 | \$ 10,000,000 |
| Tax Basis | <u>2,500,000</u> | <u>2,500,000</u> |
| Gain on Sale | 7,500,000 | 7,500,000 |
| Federal / State* Capital Gains Tax | 25% | 0% |
| Total Taxes | 1,875,000 | - |
| After-Tax Proceeds | \$ 8,125,000 | \$ 10,000,000 |

* 5% assumed for state tax rate. Please note that Pennsylvania does not currently allow for Section 1042 deferral

Driver 3: Character of Income

- Ordinary income vs. capital gain treatment
- Depreciation recapture can increase tax cost
- Planning opportunities may shift characterization



Driver 4: Timing & Deferral

- Installment sales and earnouts may defer recognition
- Opportunity to manage tax year and cash flow
- Planning must occur before deal structure is finalized



Estate Planning Overview

What is the estate tax?

- Federal tax on the transfer of wealth at death (and during life through gifts)
- Applies once total net worth exceeds certain thresholds

Who should care?

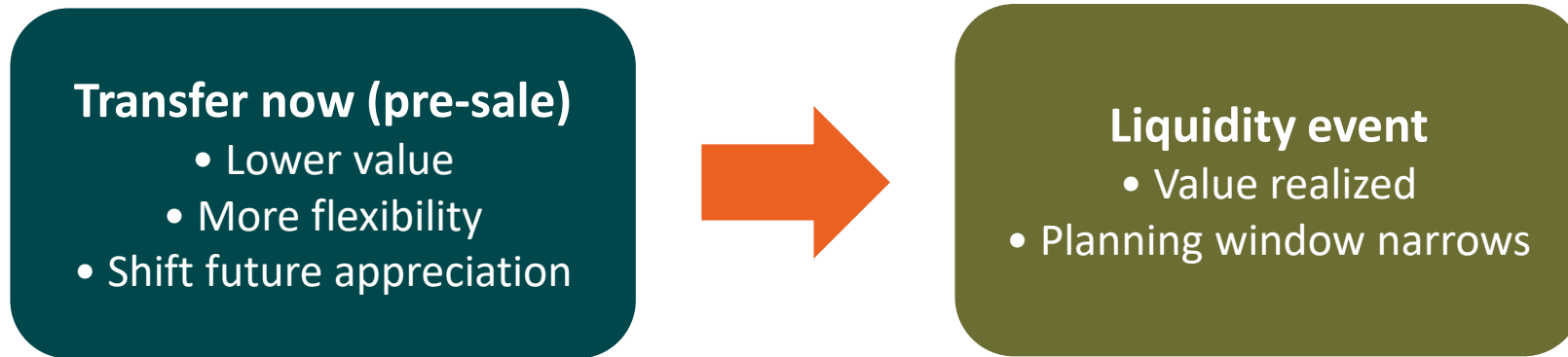
- Business owners with significant company value
- Owners anticipating a liquidity event or sale
- Families where future estate value is expected to grow meaningfully

Why it matters in exit planning?

- A liquidity event can rapidly increase taxable estate value
- Planning opportunities are more limited after value is realized
- Early coordination can materially impact long-term wealth transfer



Pre-Transaction Gifting & Freeze



- Transfer value before growth/liquidity event
- Use structures to freeze value and shift appreciation
- Timing is critical before valuation increases

Basis Tradeoffs

Gift Pre-Sale

Tax upside:
Shifts future appreciation out of estate

Caution:
Carryover basis may increase income tax

Best used when:
High expected growth; time before deal

Hold Until Death

Tax upside:
Potential step-up in basis

Caution:
Value remains in estate; liquidity planning needed

Best used when:
Estate tax exposure is low or managed

Sell First, Then Gift Cash

Tax upside:
Simple; gift liquid assets

Caution:
Income tax is already 'locked in'

Best used when:
Need simplicity; timing is tight

Liquidity & Estate Considerations

- Ensure sufficient liquidity for taxes and goals
- Align ownership with family/legacy objectives
- Avoid creating tax without cash



Pre-Transaction Playbook

- Model after-tax outcomes under scenarios
- Review ownership structure and estate plan before LOI
- Identify gifting opportunities early
- Clean up tax compliance and exposures before diligence



Key Takeaways



Plan early to maximize flexibility

Structure drives after-tax proceeds

Estate planning decisions must happen before liquidity

Coordinate advisors for best outcome



Contact the Presenter



Katrina R. Samarin, CPA, MT

DIRECTOR, TAX STRATEGIES, MANUFACTURING & DISTRIBUTION INDUSTRY GROUP
CO-LEADER, ESOP GROUP CO-LEADER

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Katrina is a Director in Kreischer Miller's Tax Strategies group. Katrina serves as a proactive and responsive tax advisor to her clients' needs including tax compliance, tax planning, and tax research for corporations, partnerships, trusts, and high-net-worth individuals. She is forward-looking to keep her clients compliant and well informed on the changing tax landscape.

Katrina works with a broad range of privately-held businesses including those in the manufacturing, distribution, construction, real estate, and service industries. She assists clients with multi-state compliance obligations and international tax planning. She also has experience in assisting her clients through federal, state, and local audits.

Katrina is an Employee Stock Ownership Plan (ESOP) specialist and co-leads the firm's ESOP group. She assists companies and shareholders with planning their ESOP transactions and is an experienced advisor in Section 1042 tax deferral.

What You Don't Know Can Cost You: **SALT** Due Diligence in M&A

June 4, 2026

Reed Brown, Director, State & Local Tax



A Few Questions Before We Start



When did you last do a SALT nexus study?

If the answer is never, or more than three years ago, you may not know the full extent of where you have tax obligations.



Have you analyzed your PL 86-272 position lately?

The rules changed in 2021. A position that was defensible three years ago may not be today.



Have you assessed your sales tax exposure?

Tax laws are changing more frequently – are you up to date?

If any of these gave you pause – this session is for you.

Agenda

1. Why It Matters – The stakes, the buyer’s lens, and how SALT shapes deal outcomes
2. Where Exposure Hides – Income & franchise tax, sales & use tax, and the gaps buyers find
3. What It Costs – Real deal stories and how findings impacted the deal
4. What You Can Do – Voluntary disclosure, timing, and your action plan



The Stakes

SALT isn't a compliance issue in a sale – it's a valuation issue. When you're selling a business, state and local tax exposure lands on the term sheet.

- It reduces what you walk away with.
 - Every dollar of unresolved SALT liability is a dollar off your net proceeds, either directly in price negotiations or held in escrow post-closing.
- It can delay or kill a deal.
 - Significant unresolved exposure creates closing risk. Buyers with choices will move on rather than inherit uncertainty.
- It gives buyers leverage at the worst time.
 - Due diligence findings shift negotiating power to the buyer. An issue found at the table is far more expensive than one resolved in advance.
- It can follow you after closing.
 - Indemnification clauses mean SALT issues don't end at closing. Sellers can face claims years later for pre-closing periods.

SALT exposure found during due diligence is typically valued by buyers at a multiple of the actual tax owed.
A \$200K tax liability can easily become a \$500K-\$800K reduction in purchase price.

The Buyer's Lens

What buyers look for in SALT due diligence:

Income & Sales Tax

1. Nexus footprint vs. states where returns are filed
2. Sales tax collection history by state and product line
3. Exemption certificate files – completeness and currency
4. PL 86-272 reliance positions and defensibility
5. Open audits, assessments, or state notices

Payroll, Compliance & Structure

1. Income tax returns in all states with nexus
2. Payroll tax compliance and worker classification
3. Historical treatment of digital goods and SaaS
4. VDAs or prior amnesty program participation
5. Post-closing successor liability exposure

The Consequences

Buyers don't ignore SALT findings, they monetize them – and they have four tools to do it.

1

Purchase Price Reduction

The most common outcome. Buyers estimate full liability and deduct it from the offer, often at a multiple to account for uncertainty. Direct hit to seller proceeds.

2

Escrow Holdback

A portion of proceeds (\$500K to several million) is held in escrow post-closing until liability is resolved. Sellers wait months or years to access their own money.

3

Indemnification and Insurable Risk

Buyers look to be indemnified for any pre-closing SALT liability that surfaces after closing – sometimes for the full statute of limitations, sometimes indefinitely. Reps and warranties are becoming increasingly popular as part of the underwriting process.

4

Deal Risk

Unresolved SALT exposure creates closing uncertainty. Buyers with alternatives will walk rather than inherit open-ended liability. The worst outcome: a deal that doesn't close.

Timing is Everything

The same SALT issue has very different consequences depending on when it's discovered. The earlier you act, the more control you have.

Phase 1 (1-3 Years Before)

- Full nexus study on your terms
- VDAs filed proactively; penalties waived, lookback limited
- Exemption certs organized
- Deal-ready compliance posture

You control the outcome.

Phase 2 (6-12 Months Before)

- VDAs still viable in most states
- Limited time for complex cleanup
- Some issues may require disclosure
- Modeling can still inform structure

Manageable – but time is short.

Phase 3 (At the Table)

- Buyers set the terms
- Price reductions likely
- Escrow demands standard
- Indemnification or insurable risk
- Deal timeline at risk

Reactive. Costly. Avoidable.

Where Exposure Hides: Income & Franchise Tax



Nexus and the PL 86-272 Protection

Before a state can impose income tax on a business, it must have nexus. For sellers of tangible goods, Public Law 86-272 has long been the key federal shield.

What PL 86-272 Does

- A federal statute that prohibits states from imposing a net income tax on a business whose only in-state activity is soliciting orders for tangible personal property, where orders are approved and fulfilled from outside the state.

Who It Protects

- Sellers of tangible personal property
- In-state activity limited to solicitation of orders
- Orders approved and filled from out of state

Nexus and the PL 86-272 Protection_(cont.)

What It Does NOT Cover

PL 86-272 only protects solicitation of tangible goods. No protection for:

- X Service businesses
- X Software, SaaS, or digital products
- X Businesses with in-state activity beyond mere solicitation

Without the Protection

Any business that doesn't qualify owes income tax in every state where it has nexus – physical presence, employees, or simply meeting a revenue or transaction threshold.

PL 86-272 – Why the Protection is Eroding

The MTC's 2021 guidance significantly narrowed what counts as "mere solicitation" in the digital age – and states are actively following it.

The MTC 2021 Guidance

The Multistate Tax Commission declared that many routine website activities exceed "mere solicitation" and forfeit PL 86-272 protection:

- Post-sale customer support via chat or web portal
- Interactive product selection tools
- Cookies that track user behavior
- Accepting employment applications online

PL 86-272 – Why the Protection is Eroding_(cont.)

States Are Following Suit

- California attempted to adopt the MTC guidance in 2022, asserting income tax on businesses that had long relied on PL 86-272, but failed due to administrative process.
- Other states have issued similar guidance or begun audit activity.

The M&A Implication

- Buyers will examine whether a seller's PL 86-272 positions are defensible under current state guidance.
- Any state where the protection is questionable becomes a potential income tax liability – affecting deal price, triggering escrow demands, or requiring voluntary disclosure before closing.

Apportionment & Revenue Sourcing

Once nexus is established in multiple states, how much each state can tax depends on apportionment, and where the owner lives determines the individual-level bill.

Multi-State Apportionment

- Each nexus state taxes a share of the gain using apportionment formulas, typically weighted toward the sales factor.
- A business with nexus in 10 states files 10 returns at 10 different rates under 10 different rule sets.

Apportionment & Revenue Sourcing^(cont.)

Revenue Sourcing

- Sourcing rules determine how revenue is assigned to each state's sales factor — directly affecting ongoing tax obligations.
- Market-based sourcing (most states): revenue sourced to where the customer receives the benefit — creating tax obligations in states where you have customers but no physical operations.
- Cost-of-performance sourcing (fewer states): revenue sourced to where the income producing activity is performed — concentrating tax in states where your operations are located.
- As your customer base or operations shift geographically, your sourcing mix — and your state tax profile — changes with it.

Where Exposure Hides: Sales & Use Tax



Why This is Where Surprises Hide

Sales tax exposure accumulates quietly over the life of a business and usually surfaces at the worst possible moment: buyer due diligence.

The Core Dynamic

- It builds over years.
 - Unlike income tax filed annually, sales tax obligations in unregistered states accumulate silently. No notices, no reminders – just growing exposure.
- The business doesn't feel it.
 - Until a buyer's advisor runs a nexus analysis, most sellers don't know the full scope of where they have collection obligations.
- Buyers are trained to find it.
 - Given the complexity and frequent tax law changes surrounding the subject, this is a focus area in due diligence.

Why This is Where Surprises Hide

(cont.)

What Buyers Estimate

- Uncollected tax by state (3-7 years back)
- Applicable interest (often 6-12% annually)
- Penalties (up to 25%+ of tax owed)
- Future audit risk
- Remediation cost (VDAs, amended returns, legal fees)

2-3x

Buyers discount the purchase price at a 2-3x multiple of the core tax liability.

Understanding Nexus

Physical Presence and the Wayfair Effect

Nexus is the threshold that determines whether a state can require you to collect and remit sales tax. The rules changed fundamentally in 2018 – and many businesses haven't caught up.

Physical Nexus

The Traditional Rule

Employees, offices, warehouses, or inventory in a state creates nexus. Even a single remote employee working from home in another state creates physical nexus – a common and often overlooked issue post-2020.

Understanding Nexus_(cont.)

Physical Presence and the Wayfair Effect

Economic Nexus / Post-Wayfair

The 2018 Game Changer

South Dakota v. Wayfair eliminated the physical presence requirement. Every state with a sales tax has enacted economic nexus laws – typically triggered at \$100,000 in sales or 200 transactions per year. No physical presence required.

The Lookback Problem

Exposure Adds Up Fast

Without a VDA, states can audit back 3-4 years or longer for non-filers. For businesses with significant revenue in unregistered states, that means accumulated tax, plus 6-12% annual interest, plus penalties up to 25% or more.

A VDA limits lookback and waives penalties -- resolving exposure on your terms.

How Sales Tax Gaps Build Over Time

Sales tax exposure rarely comes from one decision. It accumulates from a series of business changes that each created a new obligation – often without anyone noticing.

1 Geographic Expansion

Grew into new markets, crossed economic nexus thresholds in states where never registered.

2 Product Mix Changes

New products or services added that are taxable in states where prior offerings were not. Tax treatment was never revisited.

3 Digital Goods & SaaS

Rules around taxability of software and digital products changed dramatically post-2018.

4 Remote Employees

A single remote hire in another state can create physical nexus, triggering both income and sales tax obligations.

5 Acquisitions

Prior acquisitions may have brought inherited nexus and compliance gaps never reviewed.

6 Rapid Growth

Fast-growing businesses outpace compliance infrastructure. Revenue crosses thresholds before finance teams realize registration is required.

The Silent Liability

Exemption Certificate Management

Missing or expired exemption certificates are one of the most common and most avoidable due diligence findings.

The Problem

Missing certificates mean taxable sales.

Without a valid cert on file, an exempt sale is presumed taxable. Burden of proof is on the seller.

Certificates expire and go stale.

Many states require renewal every 3-5 years. Long-standing customer certs are often expired and invalid.

Multi-state formats vary.

Each state has its own requirements. A cert valid in one state may not be accepted in another.

Buyers treat gaps as liability.

Due diligence teams sample cert files systematically. Missing or expired certs flow directly to a purchase price reduction.

The Silent Liability_(cont.)

Exemption Certificate Management

Pre-Sale Cert Cleanup

1. Inventory all exempt customers and sales
2. Identify missing and expired certificates
3. Send renewal requests to customers proactively
4. Adopt a consistent multi-state cert format (e.g., MTC form)
5. Document the collection process going forward
6. Have a SALT advisor review the file before due diligence

Lessons From the Field

Scenario 1: Discovery in Due Diligence – Taxability Analysis

Background:

- Company operates within a multi-tiered contracting structure (“sub of a sub”), providing temporary labor through customer arrangements.
- Historical sales tax policy was based on a resale position that was not fully vetted. Contracts consistently state that customers direct and supervise assigned workers.

Issue Identified:

- Resale treatment generally requires the purchaser to act as an intermediary without using or controlling the service.
- Based on contract terms reviewed, customers appear to be the end users of the labor, calling into question the validity of the historical resale position.

Impact: Exposure was identified not only in states where nexus was created and returns were not filed, but also in states where historical filings had been submitted.

Lessons From the Field_(cont.)

Scenario 2: Discovery in Due Diligence – Exemption Certificates and Documentation

Background:

- Company sold products across 45+ states, creating sales tax nexus in approximately 34 jurisdictions.
- Historical filing approach was based on employee location, rather than full nexus footprint. Company also took the position that a significant portion of customers were exempt (e.g., nonprofit, education).

Issue Identified:

- Filing methodology did not align with economic/operational nexus standards, resulting in underreporting or non-filing in certain states.
- Exemption positions were taken without sufficient supporting documentation, weakening the defensibility of exempt sales.

Impact: Exposure was calculated in over 25 states, significantly higher than originally estimated because of lack of documentation (exemption certificates) and economic nexus considerations.

Lessons From the Field_(cont.)

Scenario 3: Sales Tax Readiness – Proactive Compliance Transformation

Background:

- Company historically operated under a B2B model with limited sales tax complexity.
- Transitioned to add a direct-to-consumer (D2C) channel, expanding nexus footprint and sales tax obligations.

Issue Identified and Action Taken:

- Conducted a comprehensive exposure review following the shift to D2C. Entered into Voluntary Disclosure Agreements (VDAs) in applicable jurisdictions to address historical exposure.
- Implemented formal compliance processes and documentation to support sales tax positions prospectively.

Impact:

- **Limited historical exposure through structured VDA approach (reduced lookback and penalties). Established defensible positions and documentation, improving audit readiness.**
- **Controlled the diligence narrative, provide buyers with clarity and confidence around sales tax compliance and exposures.**

Voluntary Disclosures

Cleaning Up on Your Terms

Most sales tax exposure can be resolved proactively through VDAs before a buyer ever sees it.

What a VDA Gets You

- Limited Lookback Period
 - Most states limit to 3-4 years vs. potentially unlimited exposure for non-filers, which can cut liability in half.
- Penalty Waiver
 - Nearly all states waive penalties. On a \$200K liability, that means \$40-50K in savings.
- Certainty and Closure
 - Clean compliance record for the covered period. No future audit risk on resolved years.
- Confidential Process
 - Handled anonymously through a representative in most states. No public record.

Voluntary Disclosures_(cont.)

Cleaning Up on Your Terms

The VDA Process

1. Nexus study identifies exposure states
2. Anonymous pre-clearance with state
3. Agree on lookback period and terms
4. File returns and pay tax + interest
5. Certificate of compliance issued

VDA vs. Letting Buyer Find It

| Factor | With VDA | Buyer Discovers |
|----------------|----------------------|-----------------------------|
| Lookback | 3-4 years negotiated | Full statute of limitations |
| Penalties | Waived | 25%+ of tax owed |
| Who Sets Terms | You | The buyer |

Owner Self-Assessment

These issues consistently surface in M&A due diligence. Check off any that sound familiar.

Income Tax

- We rely on PL 86-272 protection but have customer-facing website features (chat, portals, cookies).
- We haven't analyzed whether our in-state activities still qualify as "mere solicitation."
- We have employees or contractors in states where we don't file income tax returns.

Sales Tax

- We sell into states where we've never registered for sales tax.
- We have remote employees in states where we don't collect sales tax.
- Our exemption certificate files haven't been reviewed or renewed recently.
- Our product mix has changed but our taxability analysis hasn't.
- We've grown significantly and may have crossed nexus thresholds in new states.

General

- We haven't had a SALT nexus study done in the past 3 years.
- We've never participated in a Voluntary Disclosure Agreement.
- We're planning a sale in the next 1-2 years and haven't addressed SALT.

What You Can Do – and When

The earlier you start, the more control you have. Here's a practical roadmap.

3+ Years Out From Due Diligence

Maximum Control

- Full SALT nexus study
- VDA filings on your terms
- Exemption cert cleanup
- Entity structure review
- Domicile planning if relevant

1-2 Years Out From Due Diligence

Still Manageable

- VDAs still viable
- Address PL 86-272 exposure
- Refresh nexus analysis
- Model state income tax impact
- Begin deal-readiness review

6-12 Months Out From Due Diligence

Final Window

- Finalize compliance cleanup
- Organize due diligence files
- Prepare nexus disclosure memo
- Brief advisors on SALT posture
- Certify open audit status

Plan Early. Maximize Value.

What you don't know can cost you — but what you address early rarely does.

Know Your Exposure

Perform a nexus study. Understand where you have SALT obligations — income tax and sales tax, registered or not. You can't fix what you don't know.

Clean It Up First

Use VDAs for sales tax, address PL 86-272 positions, get exemption certs in order — on your terms, before a buyer sets the terms for you.

Start Now

1–3 years out is ideal. Every month you wait narrows your options and shifts leverage to the buyer.

Contact the Presenter



Reed Brown, CMI

DIRECTOR, STATE & LOCAL TAX

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Reed is a Director in Kreischer Miller's State and Local Tax group. As an experienced multi-state tax professional, Reed has developed a solid understanding of state and local tax concerns and he assists businesses in anticipating issues and developing solutions to minimize administrative burdens and exposures. He has a wide range of experience providing services in the areas of multi-state income/franchise tax and sales and use tax, as well as audit defense, tax planning, and state tax controversies in the manufacturing, construction, distribution, and professional services industries.

Reed is committed to serving as an advisor to his clients, and particularly enjoys helping them understand and navigate the often complex, and at times daunting, state and local tax environment. Working alongside his clients, he provides them the knowledge and support to fix the issue at hand as well as apply that information to future situations.

Where to Start: Turning Exit Planning Ideas into Action

June 4, 2026

Brian Sharkey, Director-in-Charge, Transaction Advisory
& Business Valuation

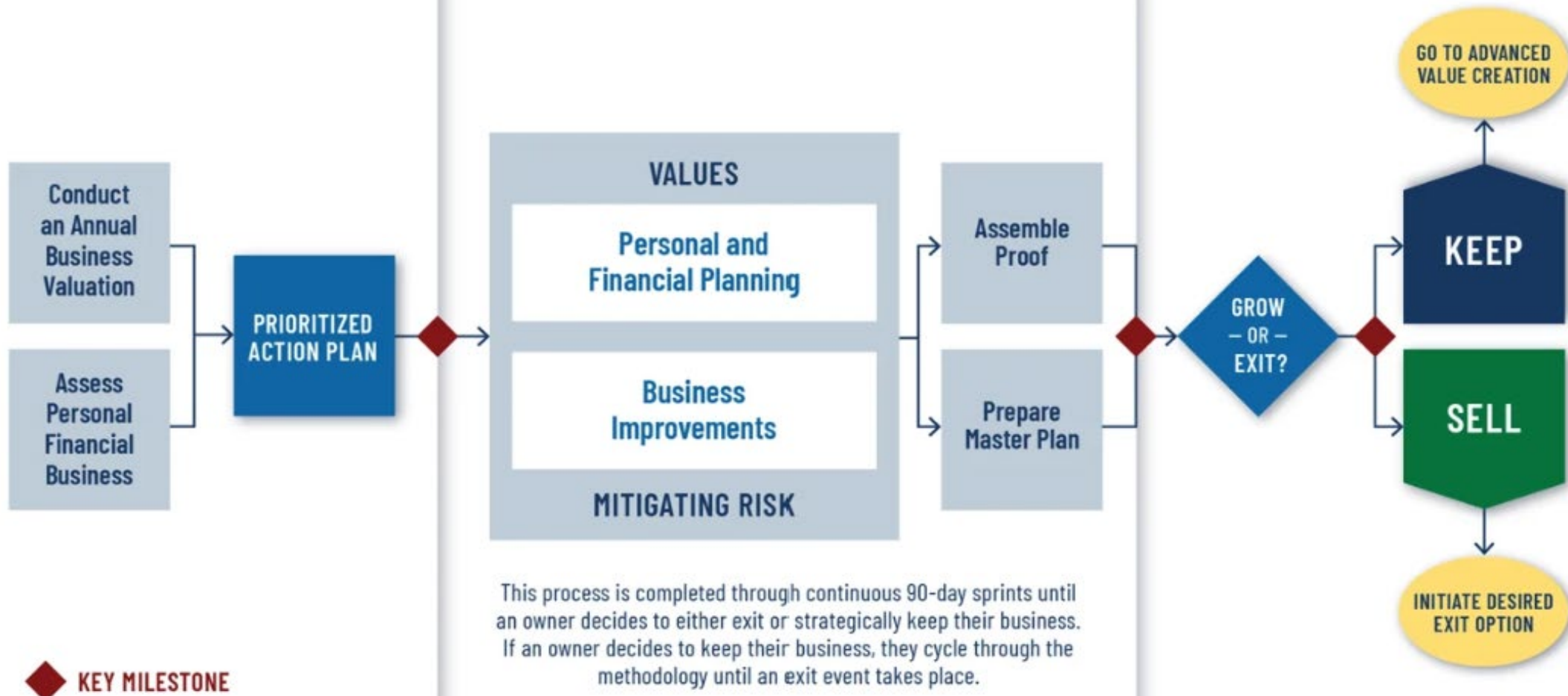


THE VALUE ACCELERATION METHODOLOGY™

DISCOVER

PREPARE

DECIDE



Conduct an Annual Business Valuation

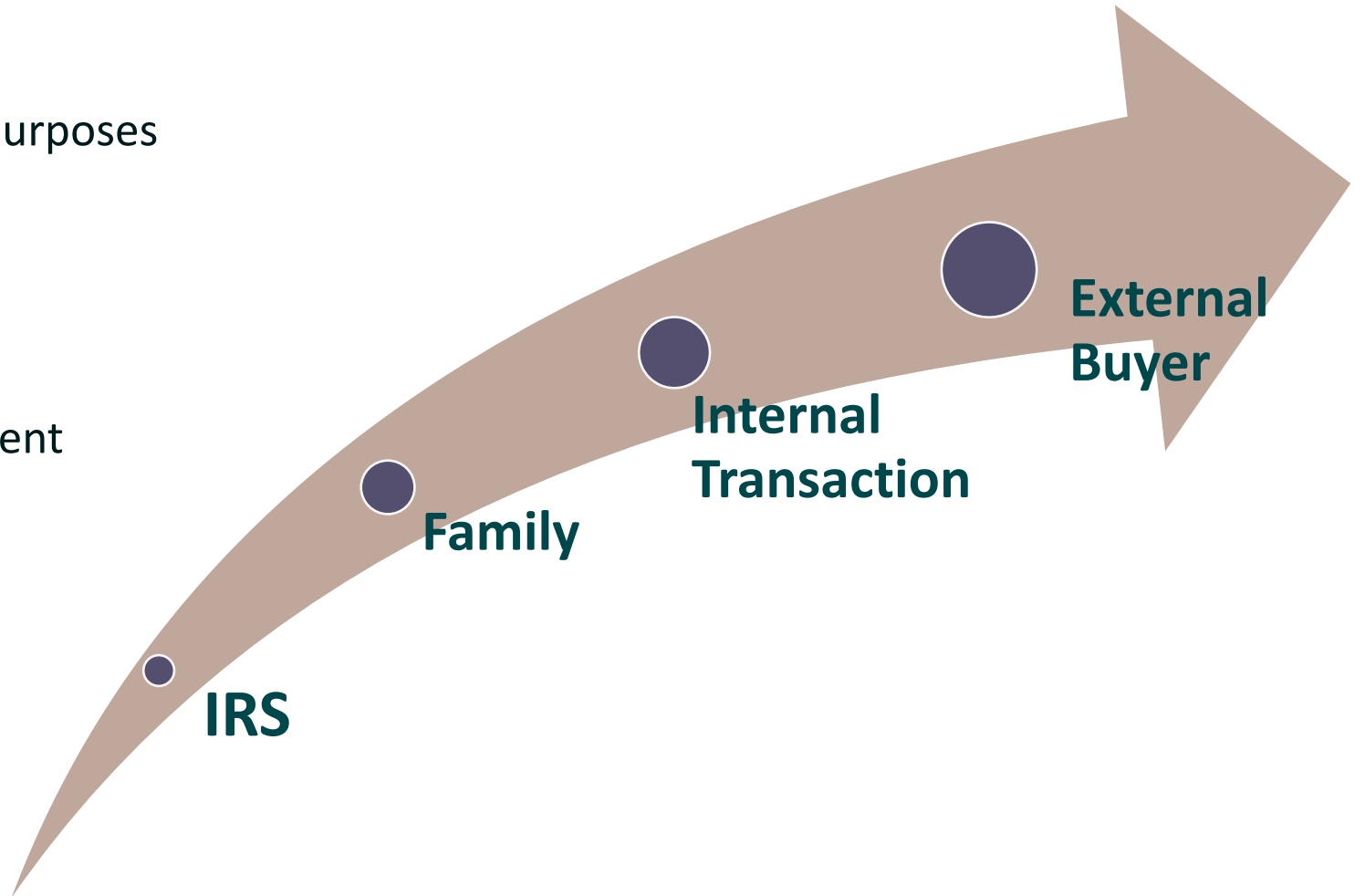
Assess Personal Financial Business

PRIORITIZED ACTION PLAN



Understand Valuation

- Multi-faceted and depends on purposes
- Sale Expectations
- Estate Planning
- ESOP Planning
- Buy-Sell or Shareholder Agreement
- Wealth and Financial Planning
- Identify valuation gaps



Personal Financial Readiness



Right Set of Advisors



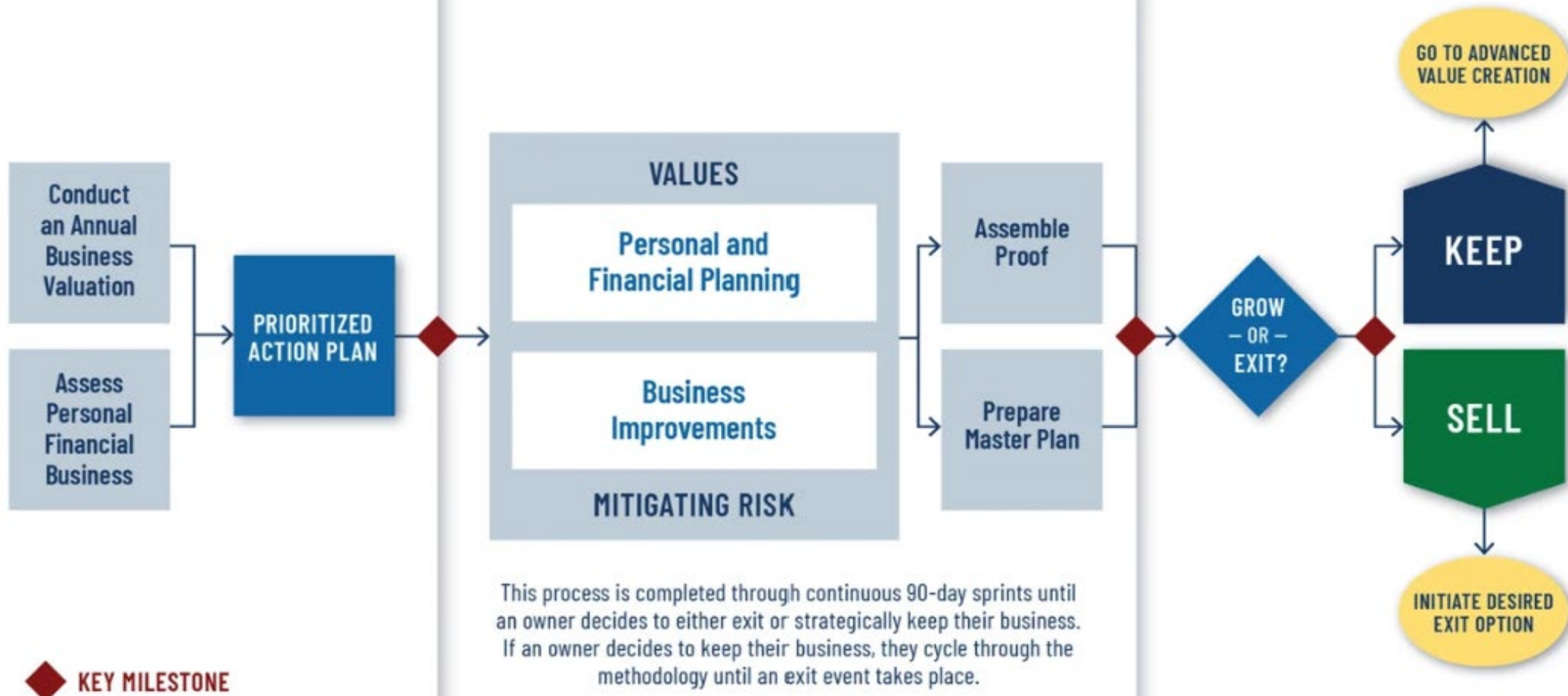
- Accountant
 - M&A
 - Tax
- Attorney
 - Estate
 - M&A
- Financial Advisor
- Business Broker
- Valuation
- Others depending on industry

THE VALUE ACCELERATION METHODOLOGY™

DISCOVER

PREPARE

DECIDE





This process is completed through continuous 90-day sprints until an owner decides to either exit or strategically keep their business

Personal and Financial Planning

EMOTIONAL

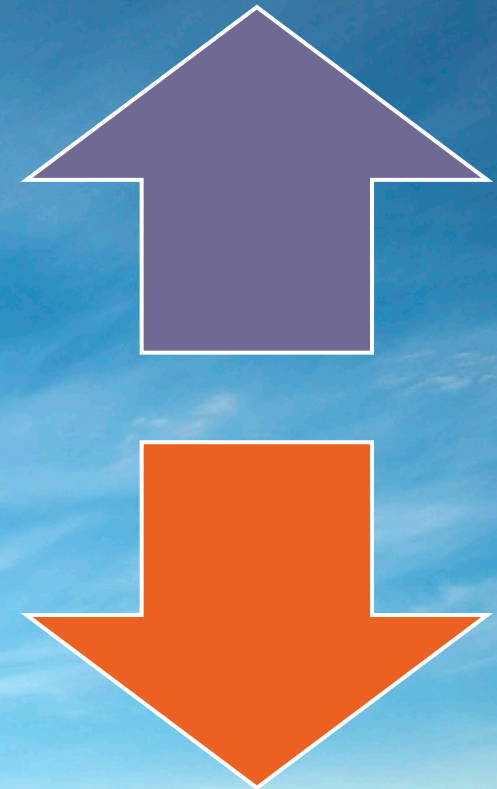


FINANCIAL

TIME



$$\text{VALUE} = \frac{\text{CASH FLOWS}}{\text{RISK}}$$



Company Financial Readiness

Quality of
financials

Ability to
verify

Consistency of
financial
information

Processes

Basis of
accounting

Clear KPIs (Key
Performance
Indicators)

Company Readiness

- Know your Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)
- Transferability vs. Dependence
- Management Team
- Growth Plan
- Tax Readiness

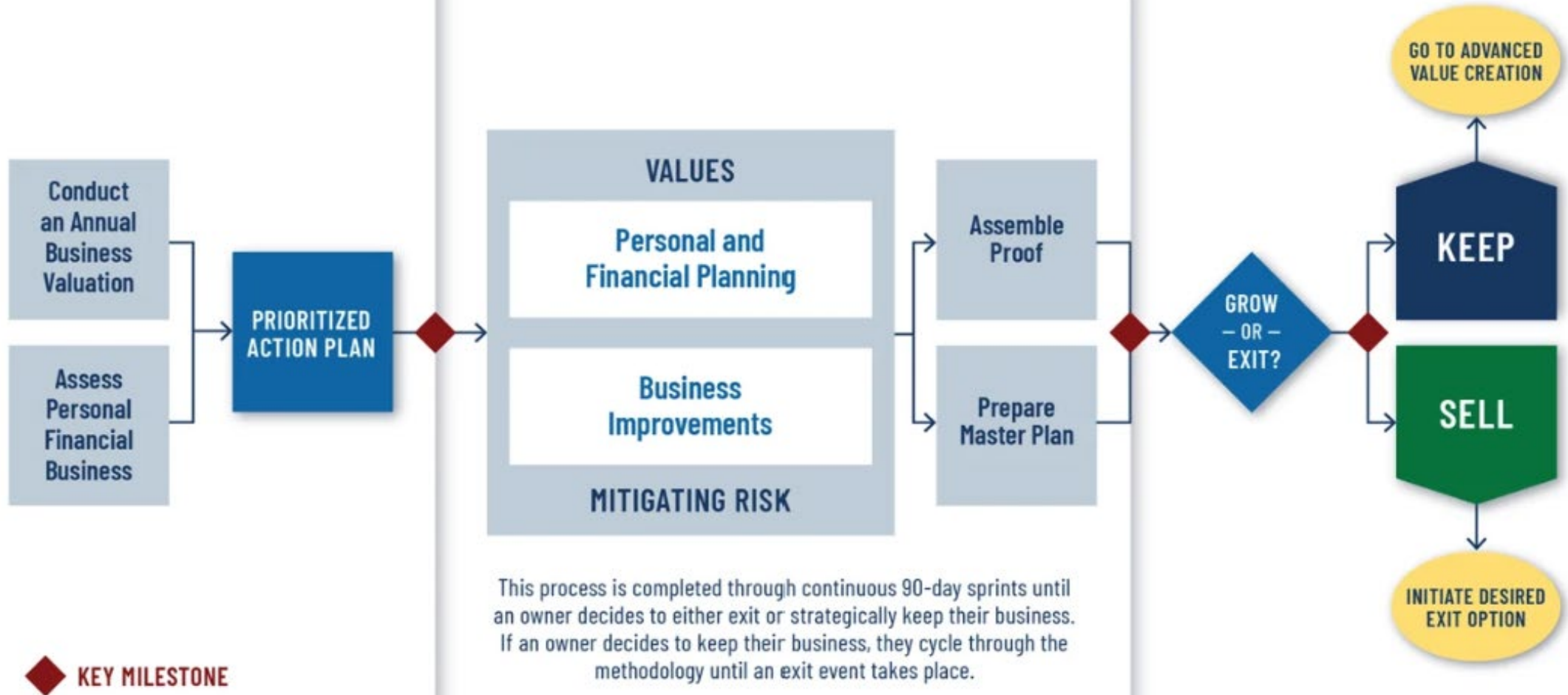


THE VALUE ACCELERATION METHODOLOGY™

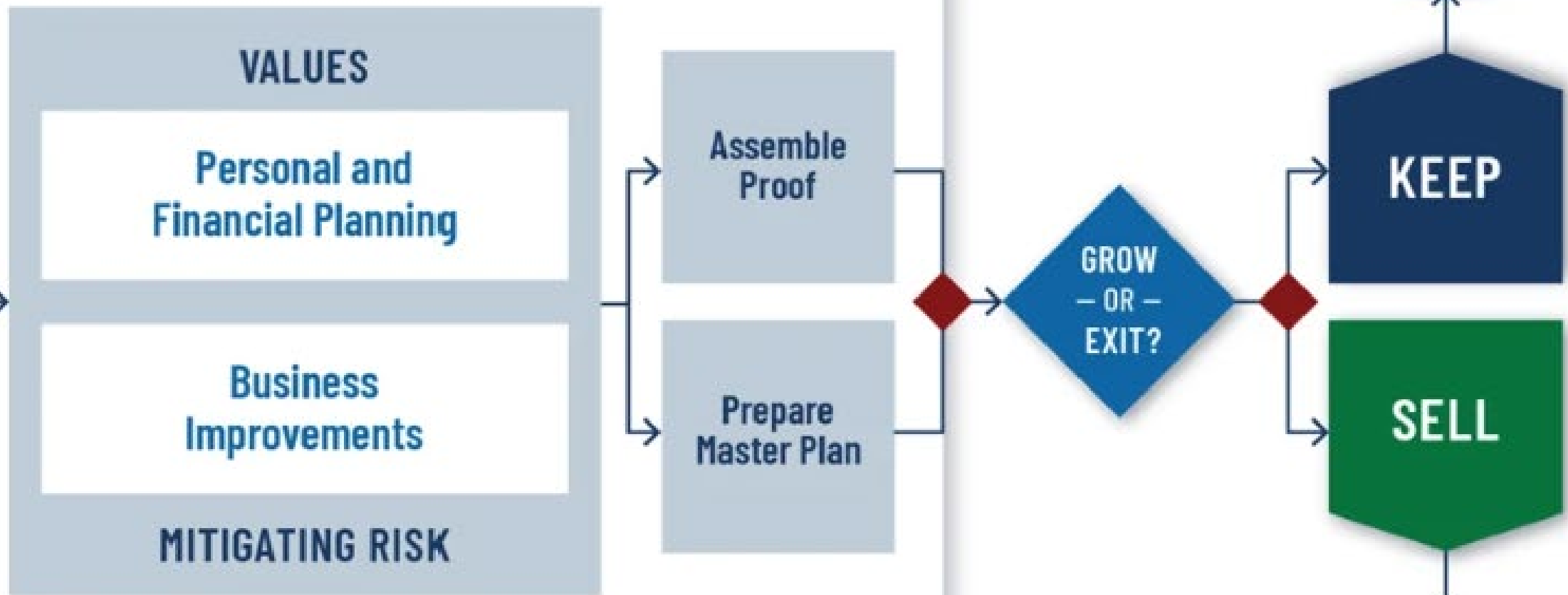
DISCOVER

PREPARE

DECIDE



◆ KEY MILESTONE



This process is completed through continuous 90-day sprints until an owner decides to either exit or strategically keep their business. If an owner decides to keep their business, they cycle through the methodology until an exit event takes place.

Readiness Side Effects

- Increases value of the business
- Increases cash flows from the business
- Implements strong business practices
- Ready for those unsolicited offers
- Serves as a contingency plan



Governance

More than one owner creates complexity

- Clarify who makes decisions
- How decisions are made
- What each owner's rights and responsibilities are

Need appropriate documents:

- Shareholder Agreement
- Partnerships Agreement
- Buy-Sell Agreement

Key Elements:

- Entry/Exit
- Restrictions on transfers
- Valuation

Address the 5 Ds:

Death

Disability

Disagreement

Divorce

Distress

Three Takeaways

- Valuation
- Allocate time
- Answer the question: What do you want?

Questions?



Contact the Presenter



Brian J. Sharkey, CPA, CVA, CEPA

DIRECTOR-IN-CHARGE, TRANSACTION ADVISORY & BUSINESS VALUATION

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Brian is the Director-in-Charge of Kreischer Miller's Transaction Advisory & Business Valuation group, which offers an array of services including M&A/transaction advisory, business valuation, transition/exit planning, and ESOP consulting.

Brian is experienced in business valuations, transition planning, due diligence, and merger and acquisition activities. He helps his clients by actively working with them to solve issues, provide recommendations, and offer opportunities for success. Brian's experience includes working with a variety of privately-held and family-owned businesses such as manufacturers, distributors, professional service companies, and SaaS based organizations.

In addition, Brian has a wide range of experience providing audit, review, and tax strategies & services to closely-held corporations. He also serves as a member of the firm's Manufacturing Industry group as well as in the ESOP specialty area.



About Kreischer Miller

Kreischer Miller is an advisory, audit and accounting, and tax firm serving the Greater Philadelphia and Lehigh Valley areas. We take an advisory approach in everything we do, working diligently to understand what your business needs to move ahead and providing the tools and guidance to help you get there.



Kreischer Miller

Center for Private Company Excellence

Learn more at www.kmco.com