

## **Six Hills Winery: Planning for Business Owners, Their Families, and Their Estates (A Case Study)**

(Provided exclusively for use by FSP Chapters)

### **User's Guide**

This package is designed for Chapters to use in developing an interactive, multi-disciplinary educational program. It includes a set of case facts that you can share with your attendees.

This session revolves around the issues of the fictitious Six Hills Winery. The heads of the family-owned business are sisters, and the owners and their husbands want to retire. Each owner has children, both working in the business and outside the business.

Although this is not a true story, the concerns are very real. The issues are common to most family-owned business owners. The problems and roadblocks to the successful transfer of the business from one generation to the next are those shared by many.

This package was created so that your Chapter can design an interactive, collaborative, multi-disciplinary educational program using a panel to discuss possible solutions for the case. The Chapter can introduce the characters and highlight their issues and then have the panel discuss the case and offer their solutions.

#### **How to use these materials:**

- The case study issues are very general and broad in scope so that, regardless of future tax and legal changes, the case can continue to be used.
- The issues are many and universal.
- The case study can be used by different Professional Interest Sections in your Chapter for smaller group meetings.
- You can make it available for presentation and discussion at business and law schools in your area.

#### **Program Format:**

There are multiple formats to offer an educational program around this case study:

- **As a speaker presentation**
  - Select the one topic/issue and a speaker
  - Send the case facts to the speaker
  - Ask the speaker for a presentation outline for CE filing and as a handout
  - Introduce the case and cast of characters at the beginning of the meeting to set the scene
  - Remember to keep the audience engaged and involved
- **Use a panel of experts**
  - Select topics/issues and panel of experts (we suggest one from each discipline)
  - Send the panel the case facts
  - Ask the panel to coordinate their plan and presentations
  - Request an outline of their presentations for CE filing and handout
  - Introduce the case and cast of characters at the beginning of the meeting to set the scene
  - Remember to keep the audience engaged and involved
- **Role-play with Attendees**
  - Assign different members roles from the case study and encourage them to assume the attitudes and issues of the character
  - Assign different members to act as the professional advisors, each one acting on behalf of their client's best interests.
  - Introduce the case and cast of characters at the beginning of the meeting to set the scene

- Have the advisors interview the characters to determine their issues and objectives so that all the conflicts are revealed
- Discuss ways in which the conflicts may be resolved for the general good of all stakeholders
- Have the professional advisors present their plan, identifying and resolving any remaining conflicts.
- Keep those members who are not participating in the role-playing engaged and involved.

**Ideas for discussion topics:**

- Estate planning issues
- Heirs
- Business succession
- Family in and out of the business
- Key persons

**Financial areas relevant to the case (limited only by your imagination):**

- Estate planning
- Key person
- Employee benefits
- Retirement planning
- Estate equalization
- Business succession
- Business valuation
- Intra-family relationships
- Tax issues
- Health insurance and preexisting conditions

**Filing for CE:**

When you file the program with your state for CE credit, you will need to include the provided case information, a speaker's (or panel's) outline, and speaker bio(s).

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### Cast of Characters

Joan Levitt:	Owner and chairman of Six Hills Winery.
Maureen “Mo” Fisher:	Owner and president of Six Hills Winery.
Bob Levitt:	Joan’s husband. Head of Festival Distributions, the distribution company for Six Hills Winery. Wine consultant, who plans to continue consulting business after retirement.
Ben Fisher:	Mo’s husband. Head of wine production at Six Hills Winery.
Todd:	Attorney for Levitt family, Fisher family, and Six Hills Winery.
Brandon:	Financial advisor assisting in planning for Levitt family, Fisher family, and Six Hills Winery.
Holly:	Joan and Bob’s daughter. MBA. Formerly worked in finance department at Six Hills Winery and would like to return when her youngest child starts school in two years.
Joel:	Joan and Bob’s son. General counsel for Six Hills Winery and Festival Distributions.
Austin:	Mo and Ben’s son. Marketing director for Six Hills Winery. Daughter, age 20 and currently a college junior, has worked at the winery part-time since age 14 and would like to take over the company someday.
Andrew:	Mo and Ben’s son. Head of IT for Six Hills Winery.
Daniel:	Mo and Ben’s son. A doctor, he is not involved in the winery, but his wife is.
Allison:	Daniel’s wife. Vice President of HR at Six Hills Winery. Has made no secret her desire to run the business when Joan and Mo retire.
Kristen:	Mo and Ben’s daughter. A teacher, neither she nor her husband are involved with Six Hills Winery.

## **Six Hills Winery: Planning for Business Owners, Their Families, and Their Estates (A Case Study)**

Six Hills Winery was opened more than 40 years ago by sisters Joan Levitt and Maureen (“Mo”) Fisher. Each sister owns 50% of the company. Six Hills is named after the six hills of vineyards they own, each growing a different grape. They grow Chardonnay, Gewürztraminer, Sauvignon Blanc, Pinot Noir, Cabernet Sauvignon, and Merlot.

They remember their father, a CPA, bringing home wine he received as payment from one of his clients, a winemaker. Joan remembers that “our parents would give us little tastes at the dinner table. We became fascinated by the process that turned ordinary grape juice into wine. We liked the wine much better than grape juice.” Their husbands eventually left their own jobs to work in the winery.

Six Hills’s primary label, Blind Eye, has consistently won critical praise for its wines, especially its Merlot and Sauvignon Blanc. They eventually created their own distribution company, Festival Distribution, which distributes Six Hills wine in all 50 states and several foreign countries.

Joan, Mo and their husbands, Bob and Ben, are ready to retire. Joan and Mo’s family has a history of longevity. Their father lived to 88 and their mother to 93. Other family members lived to their late 80s or early 90s.

Todd, the attorney for the families and the winery introduced the families to Brandon, the advisor, who conducted the interview.

### **Personal Information**

#### *Joan and Bob Levitt*

Joan, 74, is chairman of Six Hills. Her husband, Bob, is 70 and in charge of Festival Distribution. Both are in good health and have no known health problems. They have three children, Holly (44), Joel (41), and Rob (39). Joan and Bob are ready to retire from the winery, travel, and enjoy their grandchildren. In addition to his work with Festival Distribution, Bob is also a wine consultant who provides advice on wine cellar design and wine purchases by individuals. He is in demand as a consultant and plans to continue his consulting work after retiring from the winery and Festival Distribution.

While proud of Six Hills, they think it is time to let others run it. After retiring, they have no desire to do anything more than be informal advisors if asked.

Their children:

- Holly, an MBA, worked in the finance department of Six Hills until her first child was born 11 years ago and now has three children. She has talked about returning to work in two years when her youngest child is six.
- Joel is general counsel for the winery and Festival Distribution. He has two children, 8 and 5.
- Rob is not in the business but wants to set up a satellite or subsidiary business that is tied to the winery in some way. His plans for his business aren’t firm but he’s thinking of a wine shop or wine tasting room.

Their estate plan provides that company, along with their other assets, will be held in a dynasty trust with Holly, Joel, Rob, and a corporate trustee as co-trustees. Distributions can be made from the trust for the benefit of Holly, Joel, Rob, and their children.

### *Mo and Ben Fisher*

Mo, 70, is president of Six Hills. Ben, her husband, is 68 and oversees the wine production process. They have four children, Austin (45), Andrew (42), Daniel (38), and Kristen (37). Mo and Ben are also ready to retire. She had breast cancer 10 years ago but has had no problems since. He had stents placed in two coronary arteries three years ago and has high blood pressure and high cholesterol.

Mo wants to stay involved with the winery after retiring. Ben wants to be able to return if they need the money or don't like how the business is being run. After retiring, Ben plans to do a lot of fishing.

Their children:

- Austin is a marketing director for the winery. He has two children, 20 and 15. The 20-year old has worked part-time at Six Hills since she was 14 and says she wants to run it someday. She is currently a junior honors student majoring in business at a highly ranked state school.
- Andrew is head of information technology manager for the winery. He and his wife, Julie, have one five-year old child.
- Daniel is a doctor. His wife, Allison, is vice president of human resources for the winery and has made no secret of her ambition to run the business when the senior generation retires. They have three children, 7, 5, and 2.
- Kristen is a school teacher. Her husband, Jim, is a minister. They have two children, 10 and 6.

Mo and Ben's estate plan provides that \$100,000 be held in trust for each grandchild to provide for college education, purchase of a home, wedding, or other purposes. Any money remaining when the grandchild turns 30 or five years after the survivor's death, if later, is to be distributed outright to the grandchild. Their other assets are to be distributed outright to their children, per stirpes, five years after the survivor's death.

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Joan and Mo each earn \$250,000 while Bob and Ben are paid \$150,000 each. Their benefits include country club memberships for each family and a monthly \$1,000 car allowance per person. Under a bonus plan, each has received bonuses ranging from \$50,000 to \$150,000 annually for the last five years. In addition, each year for the last 10 years, Six Hills has distributed \$25,000 to \$250,000 from its profits each to Joan and Mo.

Both couples agree on what they want this process to accomplish:

- A separation between their company and their wealth
- A smooth, orderly transition of the business to the next generation
- Take care of those family members not in the business
- Providing a legacy to benefit the grandchildren is of moderate importance
- Provide an avenue for interested grandchildren to enter into the business if possible

Over the past five years, Joan, Bob, Mo, and Ben have gradually cut back. They currently work about 60-70% of the year. They would like to be fully retired in three years.

### **Company Information**

For the year ended December 31, Six Hills' gross sales were \$23.5 million and its net profit was \$3.65 million. Over the past five years, its sales have been:

<u>Year</u>	<u>Gross Sales</u>	<u>Net Profits</u>
Last Year (Year 5)	\$23,500,000	\$3,650,000
Year 4	\$21,225,000	\$3,150,000
Year 3	\$20,100,000	\$2,822,000
Year 2	\$19,325,000	\$2,196,000
Year 1	\$21,678,000	\$3,250,000

The drop in sales and profit from Year 1 to Year 2 was due to a severe recession. Similar drops were common throughout the industry.

The company has a relatively strong balance sheet, maintaining a low debt to equity ratio. The sisters and their husbands have not personally guaranteed any of the company's debt.

Ten-15 years ago, some similar size wineries were purchased by large distributors. During that period, Joan and Mo were approached by potential buyers but decided to keep the winery in the family rather than sell. This decision has provided more flexibility but limited the resources available to them.

Festival Distribution contributes about 20 percent of sales and profits to Six Hills' results. Through a subsidiary, Rolling Vines, Six Hills owns 5,000 acres of vineyards and the property where Six Hills' operations are located. Six Hills purchases the grapes grown on Rolling Vines' land for approximately \$2 million annually and pays annual rent of \$500,000 for its facilities.

A recent appraisal based on industry standards showed the operating business of Six Hills, including Festival Distribution, is worth \$31 million to \$37 million. The land owned by Rolling Vines has an estimated value as a vineyard of \$25 million. The total value of Six Hills and its subsidiaries is estimated at \$56 million to \$62 million.

Six Hills terminated its defined benefit pension plan several years ago and currently has a 401(k)/profit-sharing plan. The company matches employee contributions up to 3% of salary.

The company has developed a capable group of senior managers who collectively have the ability to maintain Six Hills' success. This group includes the second generation of Joel, Austin, Andrew, and Allison. As Joan, Mo, Bob, and Ben have reduced their involvement, this group has taken on a leadership role. None of the group stands out as the logical choice to head the company when Joan, Mo, and their husbands retire. If Holly returns to the company in two years, her absence from the company for 13 years would make it difficult for her to lead the company.

The sisters do not have a buy-sell agreement. They have always thought that each family would continue to own half of the company and the children and grandchildren who want to work in the business could do so.

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1. A separation between company and wealth
  - a. How soon is full retirement feasible?
  - b. How can you determine whether income is adequate in retirement? Is there a way to analyze expenses?
  - c. How can the needs of the surviving spouse be protected?
2. Transition of the business to the next generation and provide an avenue for the grandchildren to enter the business
  - a. What retirement planning is currently in place: pension, deferred compensation, distributions from company?
  - b. What business succession issues could hinder the successful transfer of the business from one generation to the next?
  - c. Is there a plan in place to retain key employees?
  - d. What is the role of business valuation in transferring the business?
  - e. Does the lack of a buy-sell agreement create an issue for transferring the business for the owners?
3. Take care of family members not in the business and provide a legacy to benefit grandchildren
  - a. How can the estate be equalized between the family in the business and those outside of the business?
  - b. How can trusts be used to divide the estate between the children and grandchildren of the owner's?
  - c. Is there a plan in place to deal with the estate tax for the inheritance?