

Corporate Recapitalizations

MAXIMIZING VALUE THROUGH KNOWLEDGE™

Restructuring the capital of a closely-held business, or recapitalization, addresses business liquidity and succession issues. Recapitalization may enhance cash flow and maximize wealth. It may also minimize taxes on future business appreciation. Estate tax liability from future appreciation is generally "frozen" or limited by a recapitalization.

When an individual's investment in a business grows in value beyond that necessary for lifetime support, recapitalization may provide a method to transfer future equity growth to children, grandchildren or others.

A company's recapitalization for estate planning purposes involves the creation of a second class of stock or exchanging stock for a note. The goal of the recapitalization is to transfer the value associated with certain stock away from the stock held in the estate.

Recapitalization may also be used to potentially protect assets from creditors, and may have benefits for owners from countries without comprehensive tax treaties with the United States.

The valuation component of a recapitalization is critical to structure appropriately the transaction. A complete understanding of the company's value and the rights associated with different classes of stock and debt is imperative to ensure that equivalent value is transferred.

Because of the potential for abuse, recapitalization, and specifically, the valuation will likely be scrutinized by the IRS. An appropriate valuation must be well documented, unbiased and supportable. Adams Capital's professionals have substantial experience valuing companies for recapitalization purposes. Adams Capital has defended successfully its recapitalization conclusions both in court and before the IRS. We work closely with our clients' legal and financial advisors to ensure a beneficial and appropriately structured recapitalization that meets wealth maximizing goals.