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YOUR PRIVATE COMPANY ADVISER

Family

Business Matters

2012

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KPMG

cutting through complexity

Family Business Matters

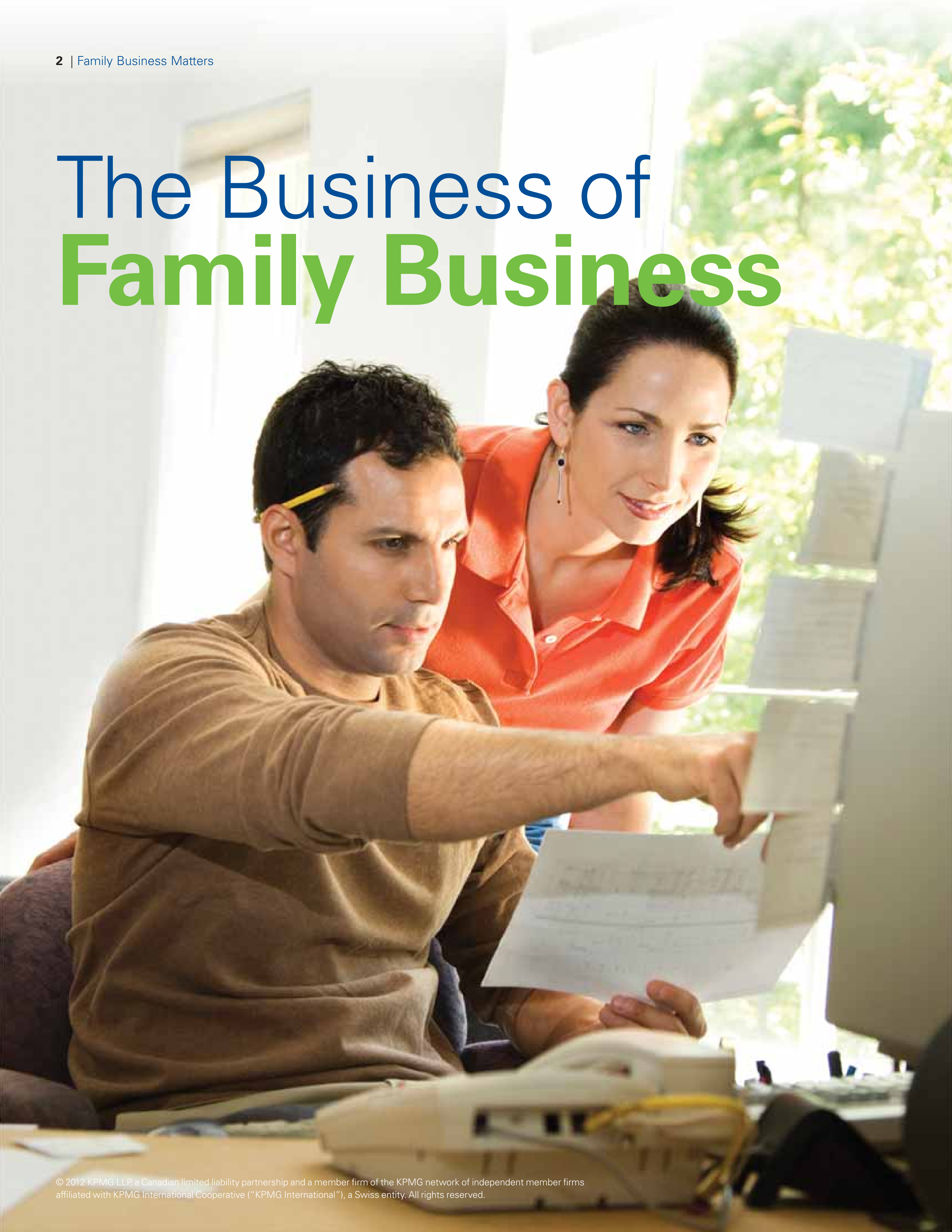
Without any doubt, the modern family-owned business sector is very much alive and makes an important contribution to Canada's economic health. Family business owners and their successive generations are proud, thriving and resilient. The passion they exude for their companies, their customers and the products and services they take to market is inspiring.

Critical to sustaining a vibrant economic environment that supports business growth and longevity is to foster learning through the sharing of perspectives, business experiences and examples of been there, done that – or "here's what we faced as a business and how we managed the situation." It is with this in mind that we publish this compilation of articles.

We hope the stories contained within ***Family Business Matters*** prove helpful to the continued growth and future success of your business and we express our gratitude to all our contributors for their openness to sharing their insights and experiences.

Beverly J. Johnson, CA, PAg
Partner, National Chair,
Family Business Committee,
KPMG Enterprise™

The Business of **Family Business**



David Simpson, MBA

Director of the Business Families Centre at Ivey, and lead instructor/facilitator for the Leading Family Firms program. He can be reached at **(519) 661-3080** or by email at **dsimpson@ivey.ca**. For more information, visit **www.IveyEntrepreneur.ca**.

A few years ago in a course I teach called "Leading Family Firms" a student provided great insight on an important lesson for business families. She told us the story about how her father refused to hire her in the family business. His reasoning was two-fold: first, he didn't want any employees thinking his daughter was hired because of her last name; second, and more importantly, he never wanted her to think she got hired because of her last name. Passing on to his daughter a sense of self-worth was far more important than giving her a job. This lesson has stuck with me as I work with Canadian business families and I am mindful to work on both the business challenges and the family dynamics.

Interest in the "business" of family business has surged in response to the evidence that in Canada there will be an intergenerational transfer of wealth of more than $1 trillion within the next decade. Understandably, advisory firms – accounting, legal, wealth management and insurance – are expanding services to business families and actively looking to increase their own knowledge base.

In Canada, support for business families and their advisers has never been stronger. Pioneering programs developed by the Business Families Foundation (www.businessfamilies.org) have morphed into multi-disciplinary programs for advisers and families at a network of Business Family Centres at leading Canadian business schools: Ivey, Sauder, U of A, HEC/McGill and Dalhousie. These centres act as a network of support for families, future leaders and advisers.

Traditionally, advisers have focused on the curse of third generation ownership and cite the often repeated statistic that less than 10% of family businesses survive the third generation. This negative sentiment needs to be countered by the understanding that few businesses in general endure for 70 years – the equivalent of 3 generations – and, in fact, of those that do survive, ownership is disproportionally family controlled. Family-led companies outlast and outperform, and the more we celebrate their overall successes, the more receptive families become to working on the real challenges.

The reality is that businesses have life cycles and it is rare for that lifecycle to exceed 70 years without substantial re-focus, re-invention and re-energizing. In today's economy, "accelerated decline" is inevitable as new products, or innovations on old ones, push out existing products at ever faster rates. Authors Morris and McCann observed that it took telephone manufacturers 50 years to gain 50 million users, while the cell phone took 11 years and Skype internet calling only 2 years. The pace of business change means a founder and a third generation owner wouldn't likely recognize each other's business activities.

The implication for business families and their advisers is that the next generation, by necessity, will need to be innovators and entrepreneurs like the founders of the family business. As advisers, we need to encourage founders to pass on "business values" like entrepreneurial attitudes, drive, energy, integrity, and constant innovation. This means thinking about succession planning in terms of passing on the leadership essentials for business success rather than passing on a particular family business.

David Bork, as US based author and adviser, spoke recently at The Canadian Association of Family Enterprise celebrations hosted by the Ivey Business Families Centre. In his address he reminded business families to have two clear thoughts.

- 'The task of family is to raise responsible adults who have high self-esteem and can function independently in their world.' *Acceptance is unconditional.*
- 'The task of business is to generate profits.' *Acceptance is based on competence, ability to develop skills, to produce and to perform.*

Just like the father of my student who knew best, clarity on this vital distinction fosters success in the business of family business.

ADVISORY BOARDS

Don Zinyk

Executive Professor in Family Enterprise at the Alberta School of Business at the University of Alberta and special adviser with the KPMG Enterprise Centre for Family Business which is dedicated to assisting family owned and operated businesses to effectively deal with their unique management challenges.

More than a decade has passed since Enron, WorldCom and a host of other spectacular corporate failures sparked a widespread review and modernization of governance in the corporate world. Increased scrutiny into the selection, compensation and independence of corporate directors led many companies to change their corporate governance to ensure more transparency and accountability to shareholders and other corporate stakeholders. These changes have, for the most part, been well received and most people in the corporate world would agree that corporate governance is stronger today than it was prior to the changes.

While many of the changes in the public sector were necessitated by new regulations, many entities not subject to the new rules decided to alter their governance policies to become more open and accountable to the constituencies they serve. Many private clubs, not-for-profit organizations and non-public entities have much better governance today that they did a few short years ago. Given the changes to governance in the both the public and not for profit worlds, one might expect that the move to better governance would extend into the private business world. Unfortunately, such expectations would be wrong.

Although hard and fast numbers are hard to come by, it is safe to say that the vast majority of private companies do not have functioning boards of directors with independent, outside directors. The reasons for this are many and include the fact that corporate directors carry significant legal responsibility and can be held personally liable for various corporate transgressions. Even if the company did have the resources to compensate the directors for the risk they were taking, few people would agree to serve on a legal board where the owner of the company could ignore the board's wisdom and effectively do what they wanted.

While it is easy to understand why most private companies do not have functioning boards, why the vast majority do not utilize advisory boards is harder to grasp. Advisory boards look and function much like legal boards of directors without the inherent legal responsibility. Although they are usually structured to meet the needs of the particular business, typically they will consist of key members of the management team and a number of independent outsiders. Meetings can vary from formal to casual, again depending upon the needs of the particular business. The biggest difference between advisory boards and legal boards is that advisory boards serve at the pleasure of management.

In spite of this very important difference, many owner managers and family businesses are reluctant to implement an advisory board. The reluctance typically stems from fears about losing control, losing confidentiality, lengthening the time it takes to make decisions and other aspects of the entrepreneurial spirit. Yet, despite the fears, some entrepreneurs do take the step and set up functioning advisory boards. Two such entrepreneurs are **Gord Wiebe**, **CEO** and majority

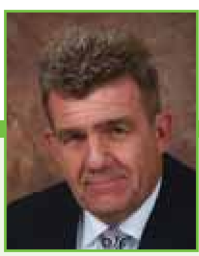
owner of **All Weather Windows** and **Brian Gingras**, **President** and majority owner of **Bee Clean Building Maintenance**. Both companies are successful, private companies based in Edmonton with operations in several provinces. Both Gord and Brian agreed to share their perspective and experience related to Advisory Boards.

"Why did you set up an advisory board?"
Brian admits to being slow off the mark. After learning about the concept at the Roadmap program for entrepreneurial families, Brian took a couple years to allay his concerns about confidentiality and to "realize that boards were not just for large companies." Ultimately, he decided that the fact that he had both a son and a son-in-law moving up the management ladder meant that he had to do something to keep their dealings at arm's length. Gord, on the other hand responded that one of his primary motivators in establishing the advisory board was the fact that he was losing senior management through retirement. He was looking for outside perspectives that would help the company manage its growth as well as the possible transition of ownership to his family.

"What value have you received from your advisory board?"
Both owners answered positively. Gord indicated that the advisory board had led to the company "broadening its horizons" and "raising its internal accountability". Brian in response to the same question indicated that "I get more day to day benefit from the advisory board than I ever expected" and "Setting up the board is one of the smartest things I've ever done."

"What advice would you have for another owner manager contemplating an advisory board?"
Both Gord and Brian gave similar answers indicating that it was important to select outsiders from different backgrounds with different areas of expertise. They also commented that while the members should not be friends, they should be trusted by the family.

While these are just two entrepreneurs amongst many, the fact that both are as enthusiastic about their advisory boards speaks volumes and both continue to schedule regular meetings of their advisory boards is testimony to the value that a well recruited and well implemented advisory board can bring to a private business.



Gord Wiebe
CEO,
All Weather Windows

All Weather Windows
Type of Business: Canada's largest privately owned window and door manufacturer
Markets: BC, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia
Founded: 1978
Head Office: Edmonton, Alberta
Employees: Over 1000
www.allweatherwindows.com

Brian Gingras
President,
Bee Clean Building Maintenance

Bee Clean Building Maintenance
Type of Business: Janitorial service provider
Markets: 27 cities across Canada
Founded: 1968
Head Office: Edmonton, Alberta
Employees: 9500
www.bee-clean.com

Are you the **Next Generation** of a Family Business?

What you should know

Everyone has heard of the dismal statistics regarding the success of transitioning family businesses from generation to generation. Most transitions fail to keep the business in the family. Most advisers and families will agree that good communication is key to a successful transition. Also key is ensuring all parties involved understand the process and the documentation that is in place: its purpose and how the various documents and agreements relate to one another and impact you, as the next generation owner manager.

Each family's transition plan is different. However, there are often a number of common aspects. As the future of a business family, it is helpful for members of the next generation to understand the purpose of each aspect as well as its relationship with the other aspects of the plan.

I recently had an opportunity to present to a cohort of up and coming successors, each of whom aspire to own the business and all of whom are currently involved in their family's businesses. The young business leaders participating in the program had a basic understanding of the process of succession; however, our discussions uncovered some missing links as to how the process might be working in their family context and the connections between certain pieces. These are some of their observations.

Family Trusts trump Wills

Family trusts are a familiar term to many family businesses owners. However, do you really understand how a trust works and what it means? The group noted from our discussions that the trust agreement trumps a will. This is true. The trust is a separate legal arrangement. Assets owned by the trust are not owned by your parents and as such are not subject to disposition by way of their last will and testament. Your parents may provide direction to the trustees of a family trust as to how the trust assets should be distributed, but the trustees are not legally bound by this direction. Therefore, it is vitally important that wills are updated to take into account that the shares of the family business are owned by the trust. It is also vitally important that appropriate replacement trustees are specified in the trust document since Mom and Dad are often the trustees. An untimely death could mean replacement trustees may make decisions with respect to the distribution of the shares of the family business from the trust that are not consistent with the rest of the family's understanding.

Preferred Shares can Control

Even in situations where a trust is not used and the common shares of the family business are transferred directly to the next generation, Mom and Dad often still own preferred shares which control the majority of voting rights of the company ("control shares"). This means Mom and Dad will still control the company and have the ability, within corporate law, to direct what happens with the company.

If Mom and Dad do own these control shares, it is important to determine what will happen with those shares when Mom and Dad pass away. In this case, the shares are owned by Mom and Dad and will be distributed in accordance with their wills. It is important to understand who will own these shares (and control the company) after Mom and Dad pass away – will the same person(s) who own the common shares also own the control shares?

Shareholders' Agreement trumps Will

As noted above, the will may direct the distribution of shares of the family business owned by Mom and Dad. However, if the disposition of those shares is otherwise addressed in a shareholders' agreement, the arrangements in that agreement will dictate what happens to the shares on the death of Mom and Dad.

Generally speaking, a shareholders' agreement will outline what will happen with the shares of a company in certain circumstances, such as death, disability, ceasing residency, etc. In the context of a family business situation, the goal is often to keep the shares held by the family. However, if there are non-family shareholders it is important to note that on the death of a parent, the arrangements in the shareholders' agreement may yield a much different result than what the family might otherwise understand, particularly if the arrangements in the shareholders' agreement were unknown before the death of the shareholder.

Take the case of Mr. H whose untimely death left both Mrs. H and their son with the understanding that they would control the family business. However, there was a minority shareholder and the shareholders' agreement called for that shareholder to have the right to purchase the shares from the Estate at an agreed amount. As a result, the business had to be sold to someone outside the family and caused a great deal of anxiety and hard feelings between the family and the minority shareholder.

Be Proactive – Find out and Understand

As noted at the beginning of this article, good communication is key to a successful family business transition. Part of this communication should be finding out what arrangements have been put in place and understanding the implications of those arrangements to you and the rest of your family. As the next generation, consider being proactive in asking questions, attending meetings and developing your own relationship with the various advisers of the family business. A thorough understanding of the situation will help ensure a smooth transition even in unexpected circumstances.

Luann Jones-Foster, CA

Partner in Moncton with KPMG Enterprise. She rejoined the firm after a period of acting as the Assistant to the President of a large real estate development firm, during which time she dealt with family succession issues, strategic planning, operational management, acquisitions and divestures and general business planning. Luann brings significant experience in assisting privately-owned family businesses structure their affairs to minimize both personal and corporate income taxes on an on-going basis as well as planning for major transactions and events. She has implemented tax efficient structures for clients purchasing or selling assets/businesses, building succession plans, establishing family trusts and reorganizing corporate structures. She can be reached at **(506) 856-6477** or by email at **ljonesfoster@kpmg.ca**.

Family Business Transitions

Documentation and Questions for the Next Generation to Consider

This checklist is meant to help identify documents which will help the next generation of the business family to understand how transition of the business will be implemented. Many of these documents are considered private and therefore some individuals may not consider it appropriate to share the documents with persons who are not party to them.

Ownership Structure

- Who owns shares?
- What types of shares are owned? For example, common shares or preferred shares?
- What rights are attributable to each class of shares, if more than one class?
- Are these rights subject to a shareholders' agreement (see below)?
- Who has voting rights? Who controls the largest number of votes?
- Which shares are entitled to dividends? In what amount?
- If there are preferred shares, what is the redemption amount of those shares (which in most cases is the value of those shares)?

Family Trust Agreement

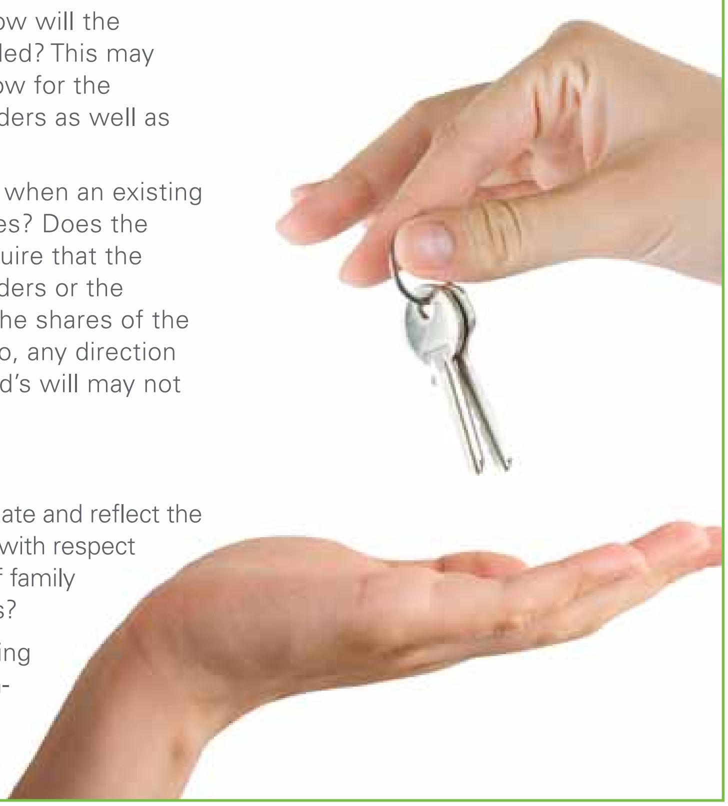
- Who are the beneficiaries of the trust?
- Who are the trustees of the trust (these people together control the assets owned by the trust)?
- What assets are owned by the trust? Does it own any assets other than the shares of the family business?
- What is the date of the 21st anniversary of the trust? This date is generally important as it often (but not always) the latest date a trust will be wound up and the assets are distributed to the beneficiaries.
- Are there any plans yet as to how assets will be distributed if the 21st anniversary is nearing?

Shareholders' Agreement

- Who are the parties to the agreement?
- Are there any provisions in the agreement for scheduled buyout of any shareholder's shares?
- If so, what are the terms of the buyout? How will the buyout be funded? This may impact cash flow for the other shareholders as well as the company.
- What happens when an existing shareholder dies? Does the agreement require that the other shareholders or the company buy the shares of the deceased? If so, any direction in the deceased's will may not be relevant.

Wills

- Are they up to date and reflect the current wishes with respect to disposition of family business shares?
- If there are voting shares and non-voting shares is the disposition in the will different for each type? This will indicate who will control those votes after the existing shareholder is deceased.
- Is the will consistent with other documents/agreements such as a family trust agreement, shareholders' agreement?
- If shares are transferred to a spouse on death (which often happens for tax reasons), is the spouse's will consistent with the disposition of the shares?



Family Business Transitions
Communication – How important is it?

When considering the transition of management and ownership of a family business, good communication is considered a key differentiator between those transitions that are smooth and successful, and those that are not. However, there is no question that effective communication is not always easy in a family business situation. Often the matters requiring discussion are deeply personal and communication can break down. Or each generation may assume that the other knows what they are thinking (but not saying!) As a result, both the exiting generation and the successor generation can experience anxiety related to the transition.

Dr. Nancy Mathis, executive director for the Wallace McCain Institute at University of New Brunswick has significant experience dealing with both existing and successor generations of family businesses in Atlantic Canada. Surveys of Atlantic Canadian family businesses conducted by the Institute, as well as Dr. Mathis' own observations confirm that communication is an area requiring real focus in a family business.

Comments shared in surveys conducted by the Institute reveal that there are many concerns in the minds of the successor generation related to transitioning a family business.

- "I don't know if I am "the one"…he hasn't clearly talked about it."
- "I am too far into this to ask for help. I'm supposed to know what to do."
- "What if I am not ready to take over?"
- "Some days I doubt he will ever let go and let me take the reins."

On the other hand survey comments from the existing generation reveal that their confidence in the successor generation may not be as clear as it could be. Many current family business owners view the successor generation as being perfectly capable of learning the skills necessary to run the family business. The cultural fit that the successor generation brings to the table is viewed to be much more important to the success of transition than just business skills, which can be learned. The existing generation feels grooming the successor generation to run the business is very important, and as a result may switch them into and out of various positions to "learn the ropes" because "they can handle it". However, the successor generation may see this as a lack of confidence in their abilities or an attempt to "just fit me in somewhere", if it is not made clear to them that this is part of the grooming process.

As these observations indicate, there appears that many times there is a lack of communication between the generations with respect to the transitioning, particularly related to confidence in abilities and grooming plans. Effective and regular communication can help reduce the uncertainty related to these issues.

Dr. Nancy Mathis
Executive Director
for the Wallace McCain Institute at
University of New Brunswick

KPMG Enterprise™
YOUR PRIVATE COMPANY ADVISER

Join Us ...

At KPMG Enterprise™, we are interested in your business success. Our aim is to arm you and members of your management team with the latest developments and leading practices that you can apply to your private company.

Our **Private Company Seminar Series** features guest speakers with experience on business issues of specific importance for owners and executives of privately held companies in Canada. Our interactive sessions will keep you up-to-date regarding hot topics, business trends, and legislative changes that impact your operations.

Visit www.kpmg.ca/staycurrent to browse the seminars available in your city and register online to any that capture your interest.

That'll never work

Canada is home to a wonderful entrepreneurial spirit and a thriving community of successful private companies and family-owned businesses. At KPMG Enterprise, we seek opportunities to celebrate that fact.

We know success comes from hard work, but for many business owners it also comes by facing challenges head on, taking risks and breaking through barriers. What Canadian business leader has not faced some form of adversity along their pathway of building a successful business from the ground up?

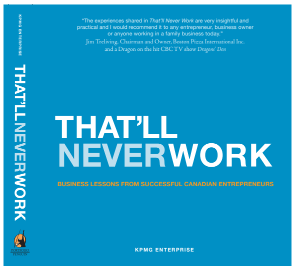
For this edition of ***Family Business Matters*** we reached out to a handful of family-owned business leaders across the country to unearth those unsung stories of perseverance and adversity. There is nothing greater for us as business advisers than listening to the stories behind these entrepreneurial families and their experiences. Despite their success and accomplishments, they often are unheralded in the daily business media or the best kept secret located on any business street in any Canadian city or town.

That's why we invited these leaders of family-owned businesses to share their stories in their own voice – to learn those anecdotal and often good humoured experiences where the business owner may have been told "NO", or that something *was not possible*, or perhaps it was even suggested by someone – *"That'll never work"* only to be proven wrong due to the entrepreneur's individual hard work, leadership, innovation, drive and yes, perseverance.

Let their experiences show you the way to possibly becoming yet another of Canada's most successful business family.

Watch for the release late March 2012 and visit www.thatllneverwork.ca to share your story.

Penguin Canada to publish That'll never work



The entrepreneurs in *That'll Never Work* will captivate you with their stories of success earned, competition burned, and lessons learned. Recalling the lessons they learned and who they learned them from, *That'll Never Work* gives us an insider's view into the triumphs and trials of some of Canada's most resilient entrepreneurs.

> "The experiences shared in *That'll Never Work* are very insightful and practical and I would recommend it to any entrepreneur, business owner or anyone working in a family business today."
>
> ***Jim Treliving***
> *Chairman and Owner,*
> *Boston Pizza International Inc. and a Dragon on the hit CBC TV show* Dragons' Den

The California Suite at the Travelodge Saskatoon, one of Airline Hotels.

Airline Hotels

proves change is better than a rest

Airline Hotels is a second-generation, family-founded hospitality company. Founded by my father in 1972, it has been a wonderful success story that we are all very proud to talk about. We started with one hotel property in Saskatoon. Now we have seven full- and select-service properties in four provinces, with annual revenues of $55 million.

Dad was the quintessential entrepreneur and visionary who applied a lot of creative thinking to building the company from the ground up when financing was impossible to come by. That included securing investors such as architects and surveyors who were willing to accept shares in the company in lieu of cash.

Until the early 1990s, life was good. But as with many family businesses, change brings challenges. And despite dad's brilliance, there was one thing that became a significant problem. That was succession planning in the wake of my father developing dementia. As dad's illness accelerated, it was evident that we needed to have a family member that could take his place at the board table.

When the time came for him to step down as chair, my husband Brian and I were approached to take the reins. I was the first female to be on the board; and although I had owned businesses, I was not that experienced in the hospitality industry.

Needless to say, this was not a popular choice for many of the incumbents. It's understandable, given I didn't apply for the job. My name got me the job. That meant I had to create value in my own mind first, and then work to gain the respect of the people who had spent years with the company.

When dad passed away in 2000 and I took on the role of president, we started hitting some rough waves. Resistance to the new leadership was strong. So some tough decisions had to be made.

Given we were considering significant expansion plans, we realized that the company would not work under the old business model. We also accepted the fact that changes we needed to make to realize our new vision had to be based on sound business reasons, not emotions. This wasn't an easy task by any means.

One major initiative was a complete change-out of the board. Before doing that we put together a grid to identify the weak spots, and the type of talent we would need to undergo an expansion. We asked ourselves however, who did we need to get there?

Betty Anne Latrace-Henderson

President,
Airline Hotels,
Saskatoon, Saskatchewan

It was also time to look at the professional services we had been using. Over the years accounting and legal services had never gone out for tender. But we knew we needed to develop new relationships that would help support our future plans.

I'm a firm believer that people come into our lives for a reason. During our change plans, we hired a new CEO who became the most phenomenal mentor. He had tons of experience in running multi-national hotels, so we never really knew why he decided to work with us. But we were grateful for his contributions up to his retirement two years ago.

Of course there are still those that question what we have done. But I've learned that if you put the effort into surrounding yourself with the right people and seeking out the best leadership for the job at hand, you can dispel the doubts. I've also learned that industry knowledge isn't everything you need to run a successful company. Our current CEO for example, has never been in the hotel business, but definitely has the personality to drive success.

Yes we had to prove ourselves. And we understand why that was the case. As we transition to third generation ownership, we don't expect them to carry on the same way we did. Everyone has to make their own footprints. The best we can do is pass on the business basics that matter.

Airline Hotels
Type of Business: Hotel chain
Markets: Western Canada and Ontario
Founded: 1972
Head Office: Saskatoon
Associates: 800
www.airlinehotels.ca

ALTA-FAB
finds family values key to longevity

Family pillars help ALTA-FAB through tough times

These days we call my father's initial struggles with the business as a bump in the road. Although I wasn't in the picture when he started the company in 1973, I know the stories very well.

The company has definitely experienced some significant ups and downs over the years, but that's pretty much expected when you're a business servicing a volatile energy industry.

The story behind the founding of the company isn't that complicated. My father had worked in the business as a controller.

In our 40-year history, ALTA-FAB has gone through not one, but two major crises brought about by untimely economic conditions. It all started with great promise. The 1970s was a booming time for the Alberta economy.

When the company he worked for went into receivership, he managed to pull together a little bit of seed money to build his own business from scratch. Anything modular and industrial solutions for the energy sector did well. But when the National Energy Program decimated the industry, and in particular Alberta, the company ended up with debt – and the banks did what banks do when that happens. But my father refused to accept defeat when they closed the doors of the business.

Within a short period of time after going into receivership he was ready to dive back in. This time the story was a completely different one. Compared to the previous launch, it was a very humble and meagre rebirth.

There was no help from the bank. Economic times were still challenging. My parents borrowed from my grandmother just to paste together enough capital. They were living payroll to payroll, begging credit from suppliers and building up the business one sale a time.

But with the help of our family, as well as loyal customers and a handful of great staff who were willing to ride things out, the business grew once again. By the mid 90s we moved to larger production facility to increase capacity. In the early 2000s we branched out into markets beyond the drilling sector to the oil sands, which created a whole new platform for growth allowing us to quadruple in size. The next biggest piece was creating a partnership with a factory in Idaho to outsource some manufacturing capacity and leap frog over the constrained Western Canadian labour market.

Mark Taillefer

President,
ALTA-FAB Structures Limited,
Nisku, Alberta

Once again, the energy sector took a substantial nosedive with the recent global downturn in 2008/09. It created a massive swing that hit all of us very hard. This time however, we were able to keep the banks at bay, although we did have to contract the business by 60 per cent as we prepared for what we thought would be a lengthy drought. We certainly weren't the only business facing this problem. But we were one of the few that made it through.

We employed a number of business strategies, as well as had a great team that did a lot of things to put ourselves in a position to ride out the downturn. I also had some good discussions with KPMG Enterprise about managing a family business through a crisis.

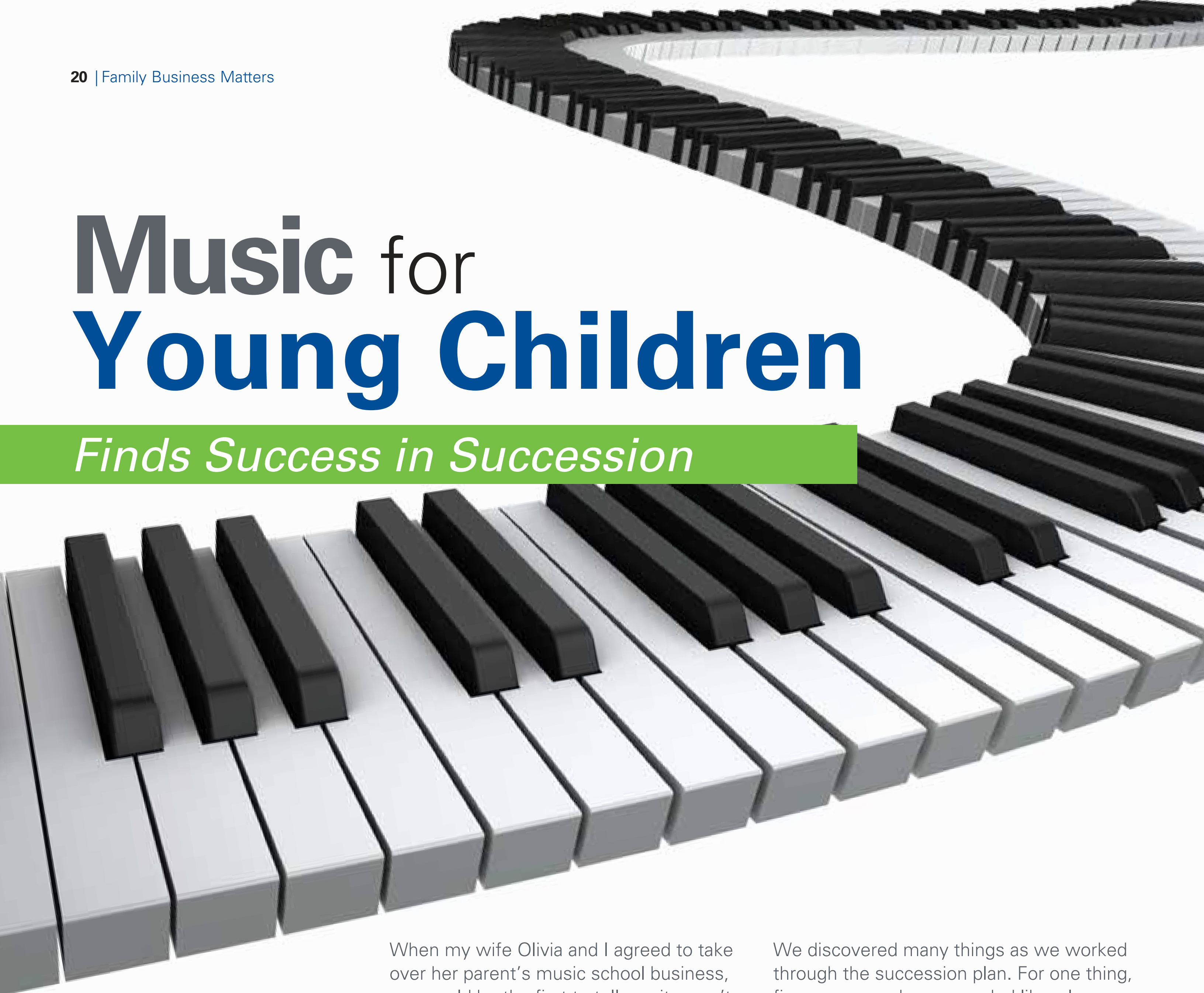
But I think the key to weathering this particular storm was the unconditional support from my family. As the sole owner of the operating portion of the company, it was my issue to deal with. But even though my parents and brothers weren't in the business any longer, they knew exactly what I was going through. Looking back I know I would not have gotten the same level of support from shareholders, investors, bankers, clients or even business partners.

The drought wasn't as long as we expected. But I have discovered some vital things about keeping a business going through bad times. The foundation for any successful family enterprise is closely connected with the values that have been embedded in the company's DNA. It's not visible every day, but during a crisis, that's the pillar you need to get through it.

ALTA-FAB Structures Limited
Type of Business: Manufacturer of modular buildings for remote workforce housing needs
Location: Edmonton (Nisku), Alberta
Founded: 1973
Employees: 400
www.altafab.com

Music for Young Children

Finds Success in Succession



When my wife Olivia and I agreed to take over her parent's music school business, we would be the first to tell you it wasn't an easy decision to make. Gunars and Frances Balodis had spent more than three decades turning Music for Young Children into the success it is today. And while they never planned to be running a company that expanded across Canada, the US and Asia, it happened just the same.

Gunars and Frances approached us in 2005 with a five-year succession plan. But this wasn't a proposition that we decided on overnight by any means. Olivia and I spent six months deciding whether we were prepared to give up our successful careers in finance and marketing in Toronto to move back to Ottawa. After much deliberation, we started with MYC at the beginning of 2006, doing basic tasks and learning the ropes.

We discovered many things as we worked through the succession plan. For one thing, five years may have sounded like a long time, but with what the transition entailed, it didn't seem to be enough.

For another, when you go into an action plan for succession, you absolutely need to engage in strategic planning. This was especially important for us given the scope of our business and the large number of teachers and staff in multiple locations.

Also, coming back to take over a family business that was built around an entrepreneurial vision is especially challenging when you come from a structured business environment. These businesses don't always operate the way typical operations are run. Things get patched together and built upon as they go along.

David Riddell

Vice President, COO,
Music for Young Children,
Ottawa, Ontario

When you're in a position to take over, you also have to walk a fine line between the owners' point of view and how you can make the business your own over time. In other words, adding innovation while keeping those values that made the company the success it is today.

I think we managed to do things right from the beginning. But that doesn't mean it was a problem-free transition.

However, engaging a succession planner turned out to be the best move we could have made. Without him, I don't think we could have navigated the sheer amount of issues we had to face, from legal and ownership issues to share plans and taxes. Not to mention the fact that he served as an excellent mediator when family members inevitably got into some arguments along the way.

The biggest challenge however was ensuring that our employees were comfortable with the transition. Loyalties to Gunars and Frances ran deep. That's why it was so important to show employees that we were a family unit. In saying that, I don't mean a mom and pop shop, but a family enterprise.

That entailed, among other things, communicating with everyone to ensure they were on board with the transition. We also needed to convey the message that while the old ways worked, and worked well, we also needed them to believe in our own strategic vision moving forward. It helped immeasurably that Gunars and Frances turned management decisions over to David and Olivia a year before purchase in December 2010.

Last but not least, you can't ignore the impact a transition like this means to the previous owners. This is a huge and emotional undertaking for them, so you need to consider what they are going through when making your decisions.

All in all, despite our hesitation when we were first approached, Olivia and I discovered that our biggest reward in our professional careers to date was making that purchase and signing those papers. Looking back over those six years, it was hard work. But we got through it. We just hope that we can continue to be just as successful as our predecessors over the next 30 years.

Music for Young Children
Type of Business: International music school
Markets: U.S., Canada and Asia, New Zealand
Founded: 1980
Head Office: Ottawa, Ontario
Employees: 1,000 teachers, 12 coordinators, 8 international directors, 12 in-house staff
www.myc.com

Music For Young Children is recognized as the CAFE Ottawa Chapter winner of the Family Enterprise of the Year 2011. Frances and Gunars along with successors Olivia and David standing with Debbie Moor Caldwell, CAFE Ottawa

Groupe Savoie

Rises from the Ashes

When I'm asked about the business hurdles we have overcome as a family business, nothing tops the fact that our sawmill operations burned down a mere two years into starting our operation. While there was enough insurance to pay what we owed, resurrecting the business took a lot of hard work and commitment.

My father was a sawmill manager and I was a teacher when we first decided to purchase the business. We both took out a second mortgage to do it. Given those circumstances, after the fire we were in no position to rebuild since that was our "cash cow". We had however, purchased a smaller cedar shingle mill within the first year of operations.

Although the banks came in to repossess the property, we managed to convince them we could sell off enough inventory to cover the debt. And that's what we did, although it took the better part of a year to do it at a time when interest rates were around 15 per cent or higher. So we ended up paying the bank, but had no money left to restart.

The only solution at the time was to go to the provincial government for a loan guarantee. By the end of 1981 we were ready to restart at the new site, but we were much poorer starting out the second time around. It took awhile to get people on our side. The loan guarantee board did not have faith in our project and was skeptical. For one thing, the mill site was smaller and did not have the capacity to handle large hardwood logs. Needless to say it took some convincing with the board to keep going.

We spent some time modifying what we had and began to slowly expand our operations. Every penny we made was put back in the business to support more production and diversification into value added services. Slowly but surely our tactics worked.

Over time, we have grown from 20 employees to 500, and added a number of value added offerings to our production capabilities, including kitchen cabinet components, wood pellets, wood pallets and hardwood flooring. We have also expanded our domestic and international markets.

However, in order to do that, we needed to add more infrastructure, including building 11 kilns to dry the wood. That was an expensive investment. We once again turned to the government for help. This time it was ACOA (Atlantic Canada Opportunities Agency) that provided grant funding to help us build our infrastructure.

With the funding provided, the early 1990s proved to be especially productive for us. In addition to our plant in St. Quentin, we increased capacity by acquiring plants in Kedgwick, Moncton and Westville, Nova Scotia. We did attempt to start up a mill operation in Tennessee, but that was quickly abandoned when the recession hit.

Although the obvious big hurdle for our company was fire, finding ways to add value to wood production was also very tricky. We had to start from scratch. No one knew much about drying and making finished products.

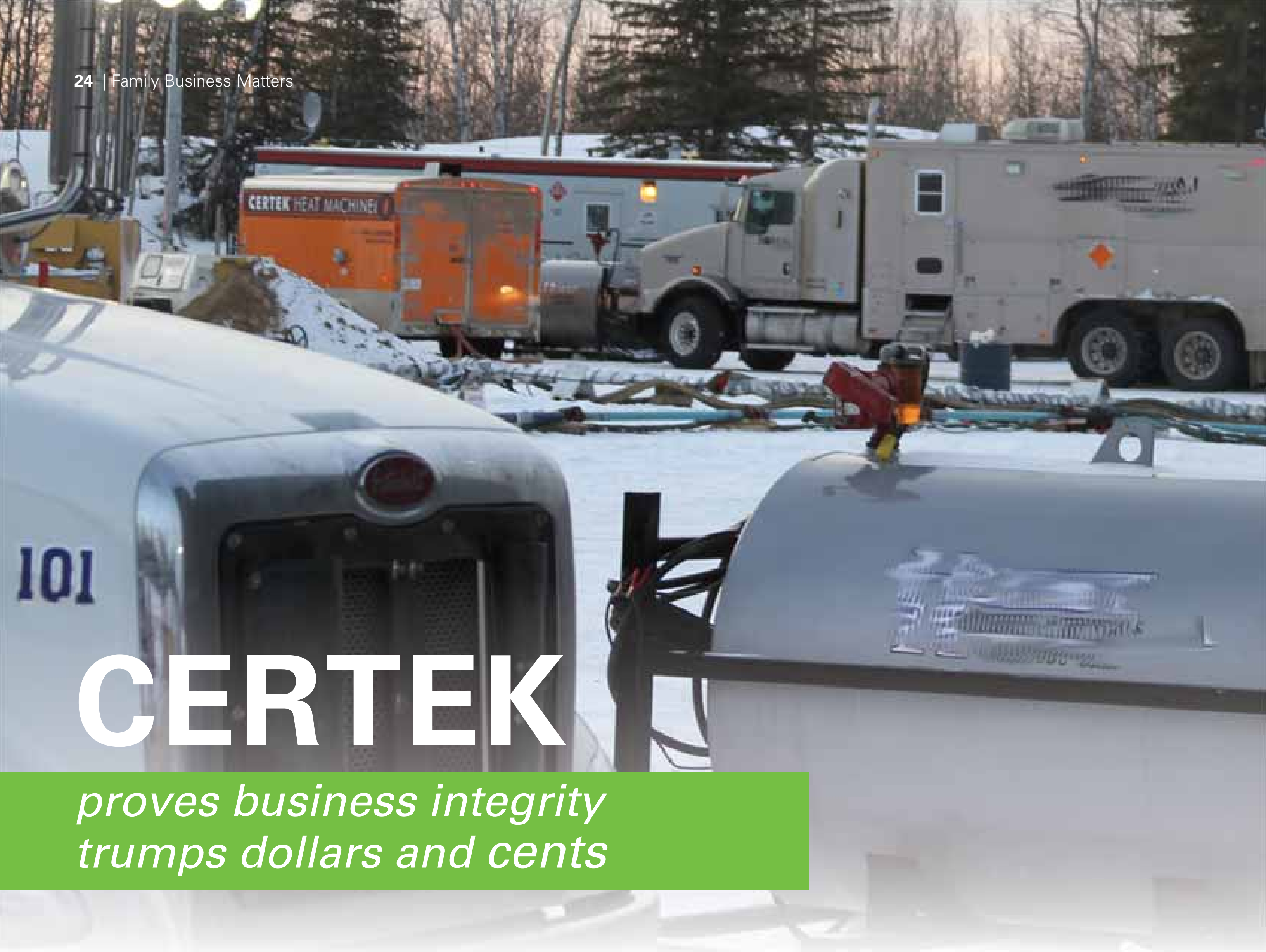
But we had the good fortune to find people who had worked at companies making similar products and wanted to come on board. It was a slow process and nothing happened overnight. It took training, patience, and once again ploughing every penny we made back into the company. We could have used more cash. But then, maybe we would not have spent as wisely as we did.

Now my children work in the business, but aren't yet ready to take the steering wheel. But we're very well positioned to keep going until they take over or the business is sold. Maybe we had to overcome more adversity than other family businesses, but we succeeded in the end.

Groupe Savoie Inc.
Type of Business: Hardwood processing
Markets: Canada, U.S., Europe and Asia
Founded: 1978
Employees: 500
Locations: St. Quentin, Kedgwick and Moncton New Brunswick, Westville, Nova Scotia
www.groupesavoie.ca

Jean-Claude Savoie

CEO,
Groupe Savoie Inc.,
St. Quentin, New Brunswick



CERTEK

proves business integrity trumps dollars and cents

The road to success isn't always an easy one. But our family has always believed that if you stick to your principles and approach everything with integrity, you already have a decided advantage when tackling the business challenges that come your way.

Our business success story is not a typical one. But the hurdles we faced during expansion were pretty standard: industry regulations, staffing, cross-border requirements and such.

We actually started out as pig farmers, home schooling our nine children, most of who now work with the family business today. Together we learned a great deal about overcoming adversity and more importantly, operating outside the boxes that dictate our education and business processes.

We also learned that in order to stay and work together, you have to have strong moral and economic principles. I like to say that the plane will come off the ground, but without those principles, it won't fly very far.

Certek was started in 2004 after our boys spent some time developing a portable heating system that turned out to be a perfect fit for the local construction industry. It wasn't long before someone approached us about expanding the concept to the oil and gas industry. While the prospects were huge, getting to those markets wasn't easy.

You might think that given our Alberta location, getting heard would be simple. That wasn't the case. At the first oil and gas show we attended, no one showed interest except one American guy who walked in at the very last hour. His advice was to take the unit to the US and in his words, "I can give you so much work you won't know what to do with it all."

Initiating growth through the US market did present some big hurdles. Most of the family members could not get work visas, making it difficult for us to manage operations from here. This will be made easier as we establish a new production facility in Grand Junction in Colorado.

Of course customs was another stumbling block that took considerable patience to overcome. We spent a lot of time meeting with customs officials, citing articles under NAFTA and smoothing the way for our cross-border business efforts.

But we also had to get ourselves known to the oil and gas market powers that be. I decided to take a gamble and paid

$48,000 to attend an industry networking event for oil and gas executives in Texas. Attendance is limited to 30 companies who are given the opportunity to talk to attendees about their ideas. The family was pretty annoyed at the cost, but that event gave us our first order from a large-scale oil and gas company for its well sites in Canada.

Over time our products have been used for all sorts of applications in both the construction and oil and gas industries. Funnily enough, coming back to Canada with our technology turned out to be an even bigger obstacle in terms of regulatory compliance and other specification-related issues.

Regardless of which side of the border we operate however, one of the keys to success for us is putting ethics and fair treatment above everything else. We're not here just to make money. If that was the case, there are many easier jobs my kids could do.

All of us believe that business can be conducted in a socially responsible, environmentally friendly way. That's not always easy for a smaller company because you can be hampered by industry rules that don't always make sense.

Yes, we need rules. But if you don't have socially responsible people out there running businesses, someone can always find ways to break them.

Perhaps the largest obstacle today is keeping pace with demand. We simply can't build our units fast enough. But we've already got a plan to figure that one out…

CERTEK Heating Solutions
Type of Business: Leases portable heating equipment to construction and oil and gas industries
Markets: US and Canada
Founded: 2004
Production Facilities: Grand Prairie, Alberta; Grand Junction, Colorado
Employees: 38 (US and Canada)
www.certek.ca

Dick Barendregt
CEO,
Certek Heating Solutions,
Grand Prairie, Alberta

What makes a GOOD family business GREAT?

The difference between "a good family business and a great family business…" the answer (if there is one) is obviously subjective…quite frankly it depends who you ask. At the Canadian Association of Family Enterprise (CAFE) – they are asking, they want to find as many different answers to that question as they can to help Canadian family business move from good to great! Is it contributions to the Canadian economy, is it demonstrated work life balance, planning for the future or community building perhaps? Every business is unique and so are the stories they have to share.

In 1986, just 3 short years after the start of the first Chapter of CAFE in Toronto, CAFE members and volunteers immediately realized the lack of support, celebration and overall recognition of Canadian Family Businesses. The Family Enterprise of the Year Achievement Awards (FEYA®) was created out of a need to show the value and importance of a critical segment of the Canadian economy – the Family Business. Today CAFE hosts celebrations that honor and award the achievements of family businesses based on history, achievements, corporate image and organizational culture.

"What makes a good family business great?" When asked Jeremy Miller, President of Sticky Branding and FEYA Award Finalist commented… *"It is the families' commitment to create something bigger than them – the family business is greater than the sum of its parts – you see that in the business that are recognized through the FEYA Awards year after year"*

"It's also the family's commitment to the next generation leadership, I strongly believe it is the responsibility of the first generation to empower and mentor the second generation to become well educated, informed, competent leaders within their own rights"

The Family Enterprise of the Year Achievement (FEYA) award is open to all businesses owned and operated by a Canadian family and headquartered in Canada. Each year nominations are invited, applications are completed and the initial adjudication takes place through CAFE chapters in 14 locales across Canada from Halifax to Vancouver Island.

In the last 25 years, the awards have been presented to outstanding family businesses such as E.D. Smith, Rogers Communications and Samuel Son & Co. Ltd., Mother Parkers Tea & Coffee to name a few. However, as important to note, the awards are achievable by grass roots organizations as was proven by FEYA Award recipients in 2010 Beau's All Natural Brewing Company, after only 6 years in operation.

"What makes a good family business great?" *"Great family businesses talk to each other, and I mean real conversations. Knowing what everyone wants to contribute to. They also seem to recognize that conflict is not only inevitable, it's healthy - and great Family Businesses are able to manage it productively and collaboratively, they hunt the elephants in the room instead of running from them, and talk about the un-discussables."*

Niki Kux-Kardos,
Family Business Facilitator,
Nexus Facilitation and member of the
FEYA 2011 Award Selection Panel

While their achievements in business more than speak for themselves, FEYA Award recipients are typically a humble group. On winning the 2010 award, Beau's All Natural Brewing Company co-owner Steve Beauchesne commented *"This award is a tribute to all our family, friends and employees who make our business what it is; a fun and vibrant business," commented Beauchesne. "This award is special and unique in that it honours the human side of the business."*

"What makes a good family business great?" The two main ingredients are Passion and Fun! The passion will see you through the tough issues and it's not work or just a job if it is fun!"

Says FEYA 2011 Finalist and Co - Chief Executive Officer, Paul Higgins Jr., Mother Parkers Tea & Coffee

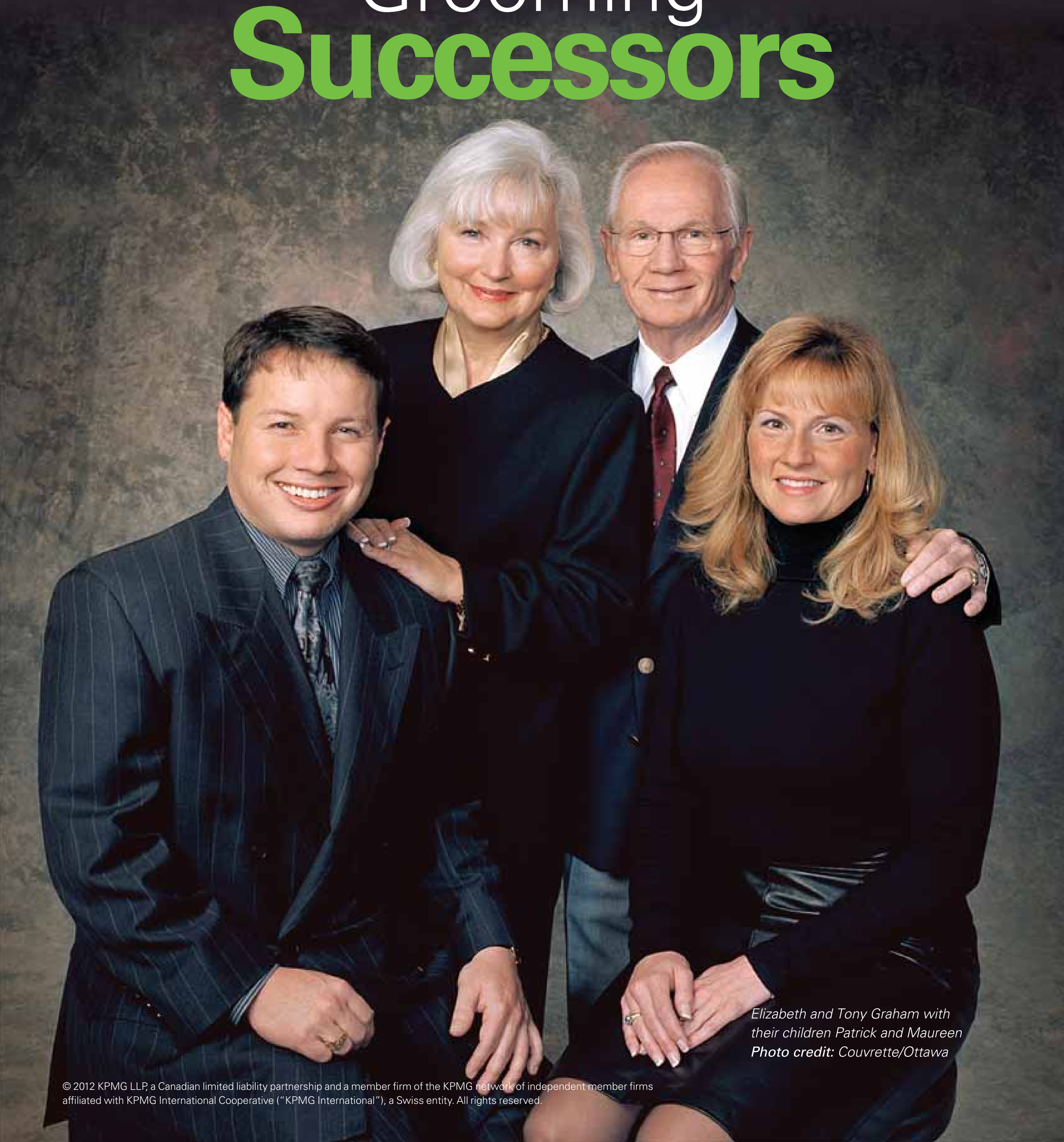
CAFE Canada 2011 FEYA Award recipient Bill Edwards, a 4th generation owner of the Saskatoon Funeral Home commented *"We are humbled to be chosen among a group of such caliber. We congratulate the Higgins (Mother Parker's) and McLaughlin (Grouse Mountain) families and all CAFE finalists. The trust and support of the Saskatoon community and our dedicated staff has made this achievement possible."*

The Family Enterprise of the Year Achievement Awards are a public acknowledgment of excellence and a recognition of the status of family business and their contributions to the local economy and culture of the communities they serve.

Nominations for the **Awards** open each fall – is your **family business good** – or **great**?

For more information regarding the Family Enterprise of the Year awards visit www.cafecanada.ca/FEYA

Grooming Successors



Elizabeth and Tony Graham with their children Patrick and Maureen
Photo credit: *Couvrette/Ottawa*

Grant Walsh

Special Adviser to the KPMG Enterprise Centre for Family Business. He is also the author of **Family Business Succession. Managing the All-Important Family Component** which can be downloaded complimentary at kpmg.ca/successionplanning. Based in Ottawa, he can be reached at **(613) 212-5764** or **grantwalsh@kpmg.ca**.

It goes without saying that the long term success of any business is contingent on having competent management. Family business owners also recognize this key element of long-term survival. Many of them pay particular attention to ensuring that the next generation family managers, leaders and owners have the skill sets required to run the family business.

It is more and more common for family business owners to strongly encourage (some insist while others even make it a mandatory requirement) that the next generation obtain a few years of outside work experience before joining the family business. The view is that outside work experience exposes the next generation to a different corporate culture with different policies and procedures and different management structures and experiences. Successors with outside work experience bring to the family business a sense of accomplishment and a certain degree of confidence that they have earned their stripes and are not simply being parachuted into the management of the family business due to blood lines (entitlement).

Although outside work experience for successors is considered a good thing, in the majority of cases, the next generation enters the family business with none or very little outside work experience. Given this reality, it is even more important that family business owners ensure that the next generation successors are properly groomed for their eventual roles as managers, leaders and owners. The best way to achieve this is to develop a formal grooming plan for each of the successors.

In the case of the **Tony Graham Motors Group of Companies**, the founder of the family business, Tony, insisted on developing a comprehensive grooming plan for son Patrick (a potential successor) who today is the next generation leader of the family business. Patrick's grooming plan exposed him to all aspects of the family business with a focus on continued learning both within the business and outside the business. The family business has been a long standing member of the Ottawa Chapter of the Canadian Association of Family Enterprise and has benefited from the ongoing knowledge and education which they have been able to incorporate into their family business and transfer to the next generation leaders.

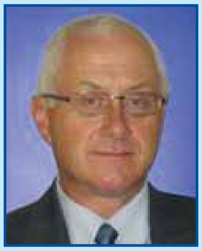
Tony's model grooming plan and the example he set with his son Patrick is now being applied to his daughter Maureen. After a short stint away from the family business, Maureen informed her parents that she would like to become a full fledge senior manager and eventual owner with her brother in the family business. The next step was obvious. Maureen was well aware of the comprehensive grooming plan that her brother Patrick had gone through and indicated her willingness to embark on one for her management and leadership development. But unlike Patrick's grooming plan where their father Tony who was still very active in the family business was the mentor for Patrick, Maureen's grooming process and plan would require a team of mentors of which one of course, would be her brother Patrick, the current leader of the family business. It was decided that Maureen's grooming team would also include select senior managers from within the business along with an outside family business practitioner to bring an outside perspective to the grooming process and plan.

Today, Maureen is well into her grooming plan and slowly but surely progressing through each stage of the plan while receiving constant feedback from her team of mentors. Her brother is closely watching to make sure she stays the course and learns from his personal experiences. As an outsider (their family business adviser) it is comforting to witness the awareness and willingness of next generation successors to embark on formal grooming plans to ensure they have the requisite skills to effectively manage and lead the family business. The Tony Graham Motors family business has been well served by the example set by their father and if long-term success is based on competent successors, this family business is doing all that they can to meet this important criterion.

Tony Graham Automotive Group
Type of Business: Automotive Dealerships
Markets: Greater Ottawa and Surrounding Areas
Founded: 1969
Head Office: Ottawa, Ontario
Employees: Several hundred
www.tonygraham.com

CREATING A FOUNDATION

It is well known that family businesses make a significant contribution to the communities in which they work. Not only do they provide jobs for many individuals and families but they also volunteer their time to community projects and further support that commitment with significant financial contributions to the community's charitable activities. Evidence of their philanthropic generosity can be found all around us. From the naming of educational and health related buildings to the support of little league hockey and soccer to the funding of community projects that make the community a better place for all. No wonder many family businesses feel such a close tie to the communities in which they operate.



R. Geoffrey Fisher, CA, TEP

Partner in Sudbury with KPMG Enterprise.
He can be reached at **(705) 669-2538** or by email at **rgfisher@kpmg.ca**.

However, their generosity tends to generate an inordinate number of requests from national, regional and local groups for support in the form of money or time or both. Family businesses have come to realize that they need to formalize their charitable

Doug and Phyllis Smith both grew up on Manitoulin Island and have lived in Gore Bay since married in 1962

giving activities in order to obtain the greatest positive impact on those communities they choose to support while ensuring that their efforts are in sync with their corporate and family values and beliefs. The establishing of a family Foundation is one vehicle that can achieve this goal and sustain the family's charitable activities for the longer term.

Considering that the wealth that is often used to fund charitable activities comes either directly or indirectly from the family business, the establishing of a family Foundation is a logical extension of the family business's succession plan. While the succession plan focuses on who will lead the family business in the future and on what terms and conditions, the Foundation focuses on who will lead the family's charitable giving program today and in the years to come and on what terms and conditions. Both are intended to serve the family and the family business.

Foundations are legal entities (like a corporation) and as legal entities they are governed by legislation and regulations to ensure that they operate within the boundaries of their mandates and that they operate in line with their objectives (i.e., charitable activities). The Foundation must be registered with the Canada Revenue Agency (CRA), it must have a Board of Directors, by-laws and outline those kinds of charitable activities it plans on supporting.

Mr. Douglas A. Smith, founder and Chairman of Smith Manitoulin Transport Ltd. recently completed the family business succession plan with his two sons Gord and Jeff. As part of the overall succession plan Mr. Smith decided to establish the ***Douglas A. Smith Foundation*** as the vehicle through which he and the family would make future charitable contributions in support of their favorite charities and community projects. For Mr. Smith, this was an opportunity to establish a long-term charitable giving program that would allow the family and the family business to continue to demonstrate its commitment to the communities in which it had its origins and in which it continues to operate. It was also an opportunity to encourage next generation family members to get involved via the Foundation in carrying out the long-term charitable aspirations of Mr. and Mrs. Smith. For them, it is important to give back to those communities that made the family and the family business successful.

Jeff Smith, Doug Smith, Gord Smith in front of a Manitoulin Transport Supertruck

Manitoulin Group of Companies
Smith Manitoulin Transport Ltd.
Type of Business: Global transportation and logistics solutions provider
Markets: All over Canada and parts of the U.S.
Founded: 1953
Head Office: Gore Bay on Manitoulin Island, Ontario
Employees: Over 1,000
www.manitoulingroup.com or www.manitoulintransport.com

COMPENSATION in a Family Business:

Payday or Nightmare?

When Barbara took the reins of the family business after her father's passing, she put her heart and soul into making the business a more dynamic and progressive company. As president, she brought on a new set of directors with a diverse skill set that complimented the company's management. She worked hard to increase the profile of the business in the community. What did she receive as salary for taking on the role of President and molding the family business into an expanded and more profitable company?

"Pay? You're family. Why should you get paid?" said her siblings who didn't work in the family business.

Ted was one of those entrepreneurs with great foresight and an incredible drive. He worked very hard to make things happen for his company and happen they did! He owned his company 50-50 with a friend who did not work in the business but who maintained a government job outside the company. Ted worked full time/overtime in the business. He and his wife were up at 5 am each morning, talking about the business and strategizing on all aspects. The company has been very successful.

When it came time to discuss remuneration at year end with the inactive shareholder, the response received was ***"We are 50-50 owners. We should be compensated that way."***

Beverly J. Johnson

Partner in Saskatoon with KPMG Enterprise. Bev focuses on providing Financial and Business Advisory services to a wide range of private companies and family businesses. She is an accredited facilitator and has been involved in many succession planning engagements. She can be reached at **(306) 934-6223** or by e-mail at **bevjohnson@kpmg.ca**.

These two cases illustrate very different compensation issues. Does the fact that Barbara is family affect the value of her role as President of the company? Should Ted be paid based on the work he does for the company or should he be paid because he is a shareholder?

Determining appropriate compensation models for family members in a family business can be politically complex and an area of potential conflict for the family business.

Common causes of pay problems in a family business include:

- Unclear roles and responsibilities
- Using pay to achieve tax savings bonuses to reduce taxable income
- Using pay as a method of parental control
- Pay based on emotion
- Confusion between family and business
- Family relationships are taken for granted
- Paying too little or paying too much
- Using pay to fund a certain lifestyle

Determining appropriate compensation for family members working in a family business can be a difficult process. Often, it is when changes and new circumstances are encountered that compensation issues arise. For example, as the company grows to include the next generation, how is compensation determined for siblings who may have different skill sets and education levels? If the siblings are paid the same despite different responsibilities it can lead to tension and resentment that can affect the business and family relationships.

Ideally, if a family business could pay each family member based on their level of responsibilities and their contribution to the business (known as a meritocratic compensation system) this would help alleviate tension and also benefit the business. This method of compensation is the norm for most non-family employees, is generally understood and is based on market values.

It is key to clearly separate compensation for work done in the business and compensation for being a family member and/or owner.

For Barbara, it took many discussions with her siblings including detailed explanations of how the business worked and what she had actually accomplished to even get her family to consider compensating her as an employee. At that point Barbara discussed her concerns with the family business external accountant. The accountant was able to research and provide a market based pay range for similar type of work. Having reliable third party information helped Barbara's family determine fair compensation for Barbara's work. Barbara now feels her efforts are recognized and appreciated. She is compensated fairly for the work she does.

In Ted's case, for many years, he was paid a salary in the senior management range, but the increase in profits his efforts brought to the company were shared 50-50 with the other shareholder via dividends. What effect did this have on Ted? Due to his high integrity and love for his work, Ted continued with the same level of intensity and the company continued to prosper. Ted was well compensated as the company was very successful. However, the fact he was not rewarded for his actual employee efforts but was rewarded due to his shareholdings did start to lead to feelings of resentment. One of the company's activities was real estate. Due to these feelings of resentment, Ted started making real estate investments outside of the company so that he didn't have to share the profits with an inactive partner. In this way, he could be rewarded for his actual work efforts, not simply by virtue of ownership.

Developing a clearly communicated compensation plan can help achieve family business success by promoting teamwork, both within the business and the family.

For further background reading regarding family business compensation, Bev highly recommends *"Compensating Family Employees in a Family Business"*, by John A. Davis, September 2007, Harvard Business School.

Tax and Your Estate

A successful family business is often the most valuable asset of a business owner's estate. However, an incomplete estate plan can threaten the ongoing existence of the business, perhaps by failing to provide for sufficient cash ("liquidity") to deal with estate income taxes or failing to document a plan for a smooth transition of ownership. Here are 10 questions which should be considered as part of any estate plan, in situations involving family business:

1 Have you chosen the right executor(s)?

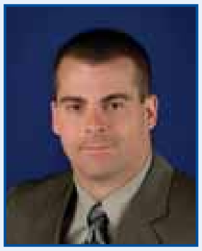
The executor of your estate can help to facilitate a successful and efficient transfer of assets and settlement of liabilities, in accordance with your wishes. You should consider factors such as the age and residency (out-of-town/out-of-country?) of the executor(s), so that unintended tax or logistical problems do not arise. You should consult with a tax specialist and lawyer, in this regard.

2 Will your estate have enough cash?

Many investments or assets, such as RRSPs and life insurance policies, allow for the naming of beneficiaries as part of the contract so that the assets pass directly to these beneficiaries outside of the estate. Although this "Will substitute" strategy may simplify the administration of the estate, it may leave the estate with insufficient liquid assets to settle liabilities (such as taxes) and the inability to provide for the desired distribution of assets to beneficiaries, in our out of the Will. Be sure to consider the impact that naming beneficiaries will have on the liquidity of the estate.

3 Are you in a position to access capital gains "rollovers"?

As a general rule, an individual is considered to have sold his/her assets immediately prior to death, which may trigger capital gains taxes for your estate. However, certain tax-free "rollovers" may be available to eliminate



Kelly Watson

Partner with KPMG Enterprise in Kelowna. He has advised numerous individuals and corporations domestically and based in foreign markets with respect to Canadian corporate and personal tax planning and compliance. He can be reached at **(250) 979-7179** or by email at **kellywatson@kpmg.ca**.

or defer these capital gains (e.g., leaving property to your surviving spouse is the most common rollover technique). Your Will and estate plan should be reviewed by a tax specialist to ensure that any available tax-deferred rollovers can be accessed, to avoid prematurely triggering any capital gains taxes.

4 *Can you take advantage of the Capital Gains Deduction?*

This deduction may shelter up to $750,000 of capital gains arising from "qualified small business corporation" shares or "qualified farm property", possibly generating tax savings in excess of $150,000 for your estate. There are numerous tests which must be met in order to qualify for the deduction, so your asset holdings should be reviewed with a tax specialist on an annual basis to determine if additional steps need to be taken to ensure that the deduction will be available.

5 *Does your Will (and related financial agreements) provide for effective continuity of the business, with minimal tax leakage?*

Your Will and other financial agreements (such as shareholders' agreements) are critical to the continuity of the business. Accordingly, you should consult with your tax specialist, lawyer and insurance advisor to ensure that these documents provide that certain assets (e.g., voting shares of the company) end up in the proper hands, and that the provisions in these documents will not trigger unintended tax results.

6 *Have you implemented an "estate freeze"?*

An "estate freeze" generally caps the value of your asset holdings and allows for the future growth in the value of those assets to instead accrue to future generations. This may lead to substantial income tax savings for your estate, thereby facilitating the continuity of the business.

7 *Are you facing a double taxation problem when assets are distributed from your estate?*

An effective estate plan addresses both the tax implications at death and the tax implications of the subsequent distributions. Although an estate freeze may save or eliminate taxes which would otherwise arise on death, a double taxation problem could still be triggered in the estate upon distribution of the assets, unless a "post-mortem" tax plan is put into place. Post-mortem planning should be examined up front with a tax specialist, while developing the estate plan.

8 *Does your Will provide for "testamentary trusts"?*

Leaving assets "in trust" for a beneficiary, versus bequeathing those assets directly to the beneficiary, can be very effective in terms of protecting those assets for the beneficiary's use. In addition, the beneficiary may realize substantial income tax savings, as the ongoing income generated from the beneficiary's assets may instead be taxed in the trust at lower graduated income tax rates. Accordingly, you should consult with a tax specialist and lawyer to determine if it may help to include testamentary trust provisions in your Will.

9 *Does your estate plan provide for family members who are not involved in the business?*

Many family-owned businesses have some members working directly in the business, while other members do not. An effective estate plan should address this situation, possibly by using tools such as life insurance or other financial assets to provide for those family members who will inherit few or no shares in the family business, thereby ensuring a fair distribution of assets among surviving family members.

10 *Is putting assets in "joint name" a good thing to do?*

Many individuals transfer assets into joint name (joint tenancy) during their lifetime, perhaps in an effort to simplify the transfer of ownership of the assets upon death, or to avoid probate fees. However, these transfers may trigger income taxes or disputes in the estate regarding the ownership of the assets. You should consult with a lawyer and tax specialist prior to transferring any asset into joint name.

Kelly highly recommends the book entitled *Tax Planning for you and your Family* available at kpmg.ca/taxplanning.

SHAREHOLDERS AGREEMENT(S)

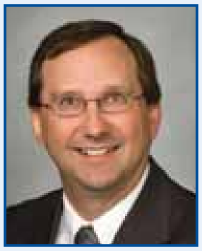
Who needs them?

Grandpa started a small retail business that was quite successful. He brought his two children, Bev and Tom into the business. With a lot of hard work the business has become very profitable and has grown to a multi-location business in three provinces. There was no shareholders agreement because: (i) "we are family so we do not need any legal agreements;" and (ii) "only big businesses need shareholders agreements" (they did not realize how big their business had become). Both these generations saw the world the same and agreed on the need to "work hard" and "reinvest in the business". In reality Grandpa either made or approved the big decisions and Bev and Tom appreciated his input.

Bev's and Tom's children (the 3rd generation referred to as the "kids") are now grown and having their children. The "kids" are more numerous and more diverse in their views. They know the business is very profitable and cannot see why they should not "enjoy some of this success" when they see their friends with cottages, boats and properties down south. The "kids" include unmarried, married and married for the second time.

As in any good succession planning there has been lots of good communication about family, ownership and management. Bev takes the lead and wants to talk a lot while Grandpa and Tom generally put up with the talking but want to get on with business.

As they transition to the 3rd generation there are four topics that have proven to be real challenges.



Tom Zurowski

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Ownership – Grandpa and Tom believe that only "blood" family (lineal descendants of Grandpa) should be owners and the "in-laws" (who they also call "outlaws") should not have any ownership. However Bev and the "kids" believe the kids should be allowed to have their spouses and children included because: (i) "they are part of the family;" and (ii) "they need to have some independence from the family business". They are still working on this but it looks like the 3rd generation will be able to have their immediate family members as shareholders and beneficiaries of a family trust in their own holding companies, but not directly in the main business.

Compensation – This is a very contentious issue. How do you place a value on the work and expertise provided by family members? Non-family are paid the price the market warrants, but for family members they may be paid just because they are part of the family. It became important to differentiate between their jobs because: (i) the "kid" who will be president and takes on much more responsibility will expect to be paid more and if not will become disgruntled; and (ii) other 3rd generation members remember the "kid" president when they were a child so cannot appreciate the amount of the president's compensation. In the end they agreed to hire an outside consultant to determine the market price for jobs done by family members and update it every 5 years.

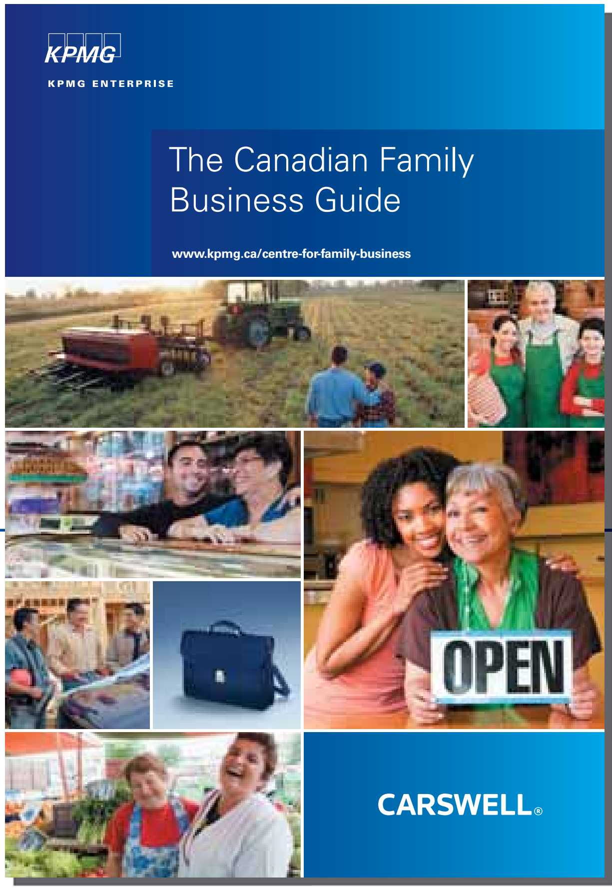
Conflicts of Interest – A less obvious issue were two types of conflicts of interest. In order to teach their children to "make it on their own two feet", Bev's and Tom's children have started some businesses that can act as suppliers to the main family business. The pricing for their products must be set at a market rate as opposed to paying a "preferential family pricing".

It also turns out that some of those "in-laws/outlaws" work for other companies that are competitors, so keeping trade secrets is very important. Originally they thought that no business could be done with the employers of the "in-laws/outlaws", but later they agreed that as long as it was market pricing this was okay but it had to be totally transparent to all the family.

Cash – There are two things to do with the cash from the business' profits: (i) re-invest in the business to replace assets that wear out and grow the business; or (ii) distribute it to family members. If there is lots of cash, then there is not much disagreement as there is enough cash for both uses. However, when the economy gets tighter (which it inevitably will), then people have to "tighten their belts". The solution they came up with was to do a valuation of the business each year and provide a return on investment of 8% with the remaining cash reinvested in the business.

Grandpa, Bev and Tom always came up with agreements taking into account the complexities of family and business. However, now the next generation is coming into the business they needed to come up with their own solutions for their family. While the discussions about their solutions to these issues was important to work them out, it is equally important to get it written down on paper and signed on the dotted line by everyone to show their agreement. The importance of this will become very evident *when* (notice I did not say *if*) issues on these matters arise in the future.

As with any part of a family business, the shareholders agreement is an ongoing work in progress that will need to be updated over time.



Carswell and KPMG Enterprise set to publish **The Canadian Family Business Guide in 2012**

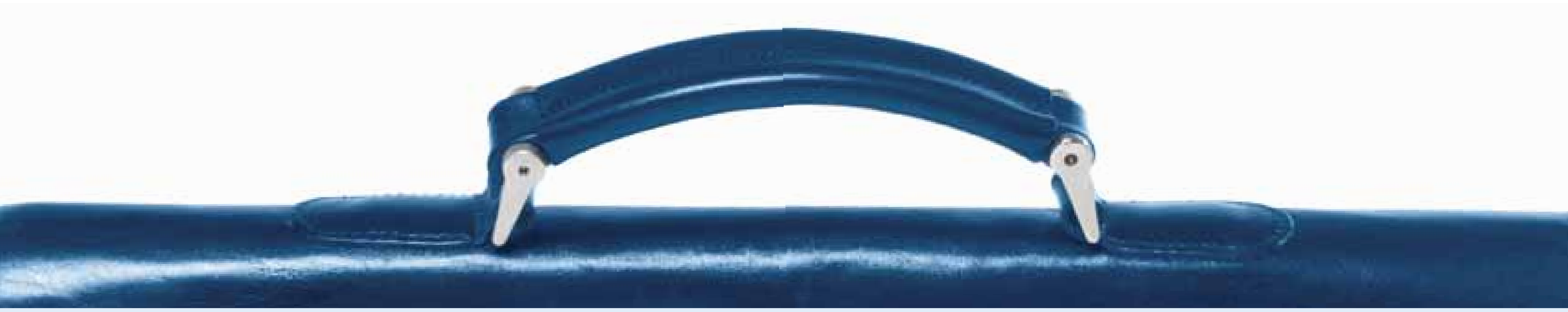
The Canadian Family Business Guide is designed to provide helpful assistance and advice to business families and their advisers. Based on KPMG Enterprise's philosophy that the family and the business are inextricably linked and should support each other, this guide offers a valuable premise – the stronger the family, the stronger the chance that the business will endure.

Filled with helpful suggestions and tips from KPMG Enterprise advisers, this guide highlights the unique management challenges and opportunities, the potential impact of these challenges and issues on the business's operation and ownership, and the best management strategies to achieve both short and long-term success. This guide imparts proven approaches and strategies to help family-owned businesses manage their family issues with success.

The Canadian Family Business Guide covers:

- Benefits and challenges of family businesses
- Family business model
- Dealing with conflict within a family business
- Managing expectations
- Developing a strategy
- Types of family business owners
- Estate planning
- Succession planning and implementation

To pre-order this product, please contact Customer Relations at 416-609-3800 (Toronto & International Customers) / 1-800-387-5164 (Canadian & US Customers).



About KPMG Enterprise

With decades of experience working with family businesses across the country and with many KPMG Enterprise advisers coming from family businesses themselves, we understand that the nature of a family business is inherently different from a non-family business. That's why we pulled together a unique team of professionals within our firm and developed an equally unique portfolio of services that address the specific needs of Canadian family businesses and their owners.

Our business advisers care passionately about the success of Canadian family businesses. As the primary point of contact, they take time to understand your business and help deliver value that is unique to your company, bringing forward the best people and the right resources to serve your specific needs. Our service delivery goal is to provide relevant, timely advice and ideas in a way that is manageable and affordable, which can ultimately help any business family save time and money.

Why select us
It makes sense to work with advisers who understand how family business operates. Having worked with family businesses for decades, KPMG Enterprise has the experience and know-how to help you achieve your business objectives and family goals. Some of our professionals come from family businesses themselves.

Value for money
KPMG Enterprise professionals seek to deliver value to their client beyond the fee charged. Our experienced family business professionals isolate the key issues quickly and efficiently. It means you're not paying for someone to learn on the job.

Knowledge and experience
Detailed industry knowledge enhances the quality and relevance of our advice. Our in-depth industry experience includes manufacturing, automotive, transportation, retailing, food services, franchising, property and construction, communications and technology, and hospitality.

Culture and values
You want business advice that is relevant, timely and, most importantly, objective and independent. KPMG Enterprise values its integrity and independence above all else. We set out to build long term relationships with our clients built upon mutual respect and trust.

People
Our professionals combine strong technical capabilities with deep business insight and experience. They're proactive in raising issues and know the importance of getting results in a timely, no-fuss manner.

Multi-disciplinary approach
Our clients can draw on our firm's extensive capabilities across a range of disciplines. We've also forged alliances with academics, family business facilitators, lawyers, financial planners and business mentors. These resources can be "mixed and matched" to meet the specific needs of your business. It's an approach that can help avoid the expense and overlap of working with multiple advisers.

Clear, actionable advice
We know our clients don't have the time to wade through advice that is vague and impenetrable. Our advice is practical, jargon-free, relevant and timely. We work with family business clients to simplify complexity and isolate the key business issues.

About The Centre for Family Business *brought to you by* KPMG Enterprise

KPMG Enterprise
Centre for Family Business

KPMG Enterprise's Centre for Family Business is dedicated to assisting family owned and operated businesses to effectively deal with their unique management challenges. Our goal is to help guide family businesses in their day-to-day operations with a focus on the continuity of the family business. It includes an open virtual forum where members of any family business can share experiences, gain insight into leading practices and obtain the essential support to grow and thrive in today's competitive economy. Visit kpmg.ca/centre-for-family-business.

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