

## The Cleaver Family Case Study

at

**8-11:30 AM**

on

**Thursday, September 9, 2010**

at the

**Loyola College Graduate Center Timonium Campus**  
**(2034 Greenspring Dr/Timonium MD 21093/410-617-1500)**

Join your fellow professionals and **moderator Jeff Lang, CFP®, MSM, MSFS** (FPA of MD past-president) of Lincoln Financial Group for an interactive and thought-provoking case study. You will explore various financial and estate planning topics (Income Tax and Estate Planning, Risk Management, Retirement Planning, Investment Planning, College Planning, Legal Issues, Corporate Planning, and Succession Planning) as they relate to real world examples. The **Cleaver family information follows, and it is assumed that you will read and study the material prior to attending.** Questions and comments will be welcomed.

**Members: \$35**

**non-Members: \$45**

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**CASE STUDY**



## The Cleaver Family Case Study

### The Cleavers

Theodore “Ted” Cleaver is a minority owner (13%) and VP of Cleaver’s Cleavers, a C Corp. He is a referral from his COO Clarence “Lumpy” Rutherford, a boyhood friend, who is also the CFO and owns a 3% interest in the company. Other lifelong family friends involved in the business include Eddie Haskell as Director of Marketing (3% owner) and Whitey Whitney, CPA who audits the company on behalf of Arthur Anderson. Ted has really been running the multimillion dollar company since 1993 when his father went on an almost two year “walk about”. He sailed, traveled, drove race cars, gambled at the casinos in Monaco, hung out in Tibet for a month, got hair transplants, went surf fishing, did the red light club scene in Amsterdam and took up hang gliding. Seems that a fatal diagnosis, that was rendered after a routine annual physical exam, sent him over the edge in a “quest for life” or at least the meaning of it . . . or rather a misdiagnosis. Kind of a good news, bad news thing. The bad news was that Ward had worried for nothing, expended every last penny he had outside the company and alas, has contracted Hepatitis. Don’t ask. The good news was Dad was not dying now and that “Ted” (all grown up now) would get his shot to prove to his dad that he could run the family business even better than somebody else, like Wally. Ward had built up such debt during his “episode” that Ted and several of the management team, fearing that company could be sold, bought 19% of the company in 1995. Ted – 13%, Lumpy-3%, Eddie-3%. The company doesn’t declare or pay a dividend, at least not since the divorce. I think it’s a control issue between Ward and June. The problem is that (according to his 1984 handwritten will) when Ward dies, if he doesn’t remarry first, Wally gets half of Dad’s remaining interest in Cleaver’s Cleavers. There is the worry that he will live forever regardless of mental state, sell the company, or worse, have no assets to liquidate to pay the estate taxes forcing the sale of the company.

As VP, Ted makes a livable wage of \$135,000 and has the standard health, disability and retirement benefits as other companies in the Meat Cutting Tool industry. The company makes a full line of knives and cleavers which, while fine

for fish and poultry, they are especially designed for beef. Beef, it's what's for dinner. Or so reads the sign hanging above Ward's credenza in his seldom used office. Cleaver's has a 14% market share nationally and Eddie Haskell is still trying to crack the Indian market. Mechanization is "cutting" into their business, chopping the gross profit while other beef industry threats include Oprah, E-coli, mad cow and the admonishment of dieticians and doctors everywhere. The competition may require the company to downsize their workforce, an idea that doesn't set well with the Steel workers and Meat Cutter's unions.

Nobody calls Theodore "the Beaver", now age 45, except his mother, who divorced Ward in 1982. June continues to work as a "rent a maid" where she vacuums in full make up, heels and pearls. Quite popular among the older widowers, she makes an undisclosed and unreported income of what we presume to be a few hundred dollars per month. She just about covers her living expenses with her earnings, Social Security benefits (Ward's) and the lifetime alimony of \$1500 per month. She drives a 1995 Neon in need of repair on a weekly basis. In the settlement she got the family home, which although paid for is in a declining neighborhood. She doesn't think she could afford to move, but she wonders if she will be safe there much longer. June, over the objections of her counsel accepted a 15% interest in Cleaver's Cleavers. She also received the QDRO for \$112,000 which she invested in a diversified portfolio managed by the firm of Rickover and Rickover. Her broker is the elder Rickover, Richard Sr. while "the Beaver" uses Richard Jr. The account did well through the 80's and most of the 90's, climbing to about \$480,000 only to be decimated by the latest 2 years of steady market declines. It probably didn't help that Richard Sr. was on vacation for several weeks in the spring of 2000 and let Richard Jr. trade the account where he bought Enron, Lucent, Cendant, MCI Worldcom, Ciena, Adelphia, Tyco, Global Crossing and Corvis totaling a third of the portfolio. The account is valued at \$46,000. She feels awkward about complaining about the trades since one of the weeks she was with Richard Sr. in Hawaii. They had a lovely time. He doesn't seem to call much any more.

Ward is still the majority owner (66%), president and CEO of the company he founded in 1964. His \$500,000 salary is a drain on the company, but since it doesn't pay dividends. . . He has built a balance of \$156,000 in his 401(k) since he raided it during his "walk about". The Boys are the beneficiaries. He has maintained the farm estate valued at \$3.2 million but has it heavily mortgaged to the tune of \$2.5 million. Other than \$3,000 in the bank, this is the extent of his wealth. He has no life insurance, no LTC, no power of attorney and only the will he wrote by hand in 1984. He is 72 and still going strong. His latest girlfriend,

Monica, who is also the receptionist at the company, is just now finishing up her studies at the local community college to become a Bookkeeper. She got the job through her uncle Eddie, some big wig at the company. Since coming to live with Ward, she drives the 2001 300 M leased by the company for Ward. Ward drives his new A6, a little too fast sometimes. He has been in two accidents (1 with Monica in the car) and has had three speeding tickets this year. A pretty mean feat since he lives in a farm estate only ten miles from work.

Wally, Theodore's brother, is growing Sequoia trees in Oregon. He finished his AA in Forestry in record time to get out there to watch those trees grow. Incidentally, in his spare time Wally has written 2 bestseller novels netting him a nice advance for the contract to write 4 more. The royalties are slowly building. At age 50, he has never married and has no children. His relationship with his father cooled a bit when he didn't enter the family business.

Ted has been married to Gilbert Bates' sister Dee since 1977. Their solid 25 year marriage has produced three wonderful children, Norman Bates Cleaver (21), Clarence Cleveland (C-Cubed) Cleaver (18) and Sylvester Stallone (Sly) Cleaver (13). Norman and "C - Cubed" work at the company during summers and after school. Sly is still doing the video games and Roller Hockey thing, where he met his new girl, Adrienne. "C- Cubed", a name he demands to be called, says that he will follow in the footsteps of controversial rap artist Marshall Mathers (Eminem). He was going to call himself Jerry Mathers (Jayinem) but he got mixed reviews from the peeps in his posse. Norman is finishing his BS in Business Admin with an emphasis in marketing. He thought early on about hotel management but got mixed reviews on the idea from his counselors. He sees himself as the heir apparent of Cleaver's Cleavers, eventually. His extremely close relationship with Ward concerns Ted who fears being skipped over. He already fears that he will not have the control he needs to continue the company upon his father's death. Luckily he has cultivated good relations with the local banks should he need to raise cash to buy out his brother. But, at what price? Wally is not likely to "take it easy on the Beave", and no longer sees him as "just a little kid". June's will also splits her interests evenly between her boys, that is unless she sells her interest to raise cash in retirement. There are no restrictions on to whom she may sell. The last offer to buy came from Ben Cartwright IV from Ponderosa Packing which is expanding into the business. The offer was an insulting \$800,000 for 15% of a profitable and stable company. Her CPA said that it was worth at least twice that. "The land under the plant was worth more than the rest of the company", she said.

Ted and Dee have a modest home in the valley valued at \$235,000 less a mortgage of \$123,000 @ 7% for another 17 years (30yrs.). A small portfolio of UTMA accounts, a joint account and a very actively traded stock account in Ted's name are held with Richard Rickover, Jr., the family broker. College costs for the boys will just about be covered by their UTMA accounts. Dee wishes that Ted would stop gambling with their life savings by "playing the hot tip" game. He countered that he knew what he was doing and that she was just too conservative. Besides, his new best friend, Martha, had been very helpful since he cut her a deal on pricing for her new line of K-Mart Cutlery. Their joint account has 3 months income as a buffer in the money market. This is a result of Dee insisting on having Ted transfer 15% of his gross pay into the "Family Investment Accounts". Dee's deceased father told Ted to be well insured for death before he would allow them to marry. Ted complied and obtained a \$25,000 whole life plan and \$475,000 of 20-year term. Ted's 401(k) is valued at \$345,000 even with the markets tumbling over the past 2 years. He attributes the remarkable performance to Dee who, once again, insisted on a balanced, well thought out allocation. Dee wants to ditch Rickover and Rickover, but Ted won't budge.

But that was then and this is NOW. 15 years have come and gone. A lot has changed. Believe it or not Ted is now 60 years old and a 49% owner of the family business. Dad died without remarrying and split his 66% interests evenly between Wally and Theodore. Lumpy quit and sold his shares to Theodore and Eddie bailed when Monica got nothing when Ward passed away, selling his 3% interest to Wally for a handsome premium. He just couldn't let the "Beave" get controlling interest. Wally also made him a main character in one of his best selling novels, Ready Hassle. Mom was going to take the offer from Ponderosa but, Theodore convinced her to hang in there by converting to an S Corp and promising to make distributions.

Theodore takes a modest salary of \$250,000 annually which when combined with the (\$490,000) distributions begins to pay him back for the many years of sweat equity. His son, Norman Cleaver, MBA "The New Normal" is indeed the heir apparent. Doesn't sit too well with his brothers but, he doesn't really care. Like his father, he will earn his way.

Theodore and Dee have accumulated a few assets. The 401(k) is over \$500k, the mortgage-free house in the valley now valued at \$750k even after the market adjustment and a personal investment portfolio of \$899k held in joint name. The Company shares are valued at \$3,800,000 with the minority control discount. There is an operating agreement and a shareholder agreement in place. It looks

like a wait and see buy-sell but, is not funded in any way. Valuation is going to be a problem due to the language used and the fact that the value has not been updated according to the agreement (annual agreement on value by shareholders). There is 5 years left on the \$475,000 term plan and the Whole Life policy is virtually paying for itself with the dividends being applied to the premiums.

Dee wants to discuss retirement and Social Security benefit options. She had read several articles about it in AARP. Not sure how her “Teddy” will ever escape that company to travel with her to see all 14 of her grandchildren . . . Sly married a gal with 7 children from a previous marriage and had 3 of their own. Clarence and his wife of 7 years have 4 so far. Norman’s baby is Cleaver’s Cleavers.

Theodore is open to all options but, needs to understand how his brother’s estate will pass. Will he favor Norman or divide among the nephews perpetuating the problem? He must give the Corp first right of refusal, in any case. No funds have been put aside to redeem him shares. Might he make a charitable gift? Who knows? They don’t talk anymore.

Mom is 90 and still looking spry. The income she gets from CC is nice and covers her nursing home costs. She even has enough “pin money” to pay competitive BINGO. Theodore is asking if he should buy out her shares ahead of time or just wait for her to pass.

**Assignments:**

**Who is your client?**

**Ted**

**Ted and Dee**

**June**

**Ward**

**Cleaver's Cleavers**

**Wally**

**What additional information do you need?**

**What assumptions can you make?**

**What is the value of your client's estate?**

**What goals can you assume?**

## **Observations:**

**Income Tax**

**Estate Planning**

**Risk Management**

**Retirement Planning**

**Investment Planning**

**College Planning**

**Legal Issues**

**Corporate Planning and Succession Planning**

## **Recommendations:**

**Income Tax**

**Estate Planning**

**Risk Management**

**Retirement Planning**

**Investment Planning**

**College Planning**

**Legal Issues**

**Corporate Planning and Succession Planning**