

# GLOSSARY

As with any specialty, there is a vernacular that is specific to succession planning. Certain words can hold a different meaning if taken out of context. That's why we're providing a glossary of commonly used words and phrases in succession planning. Please refer to this glossary often as you follow the Legacy Project. It provides a valuable foundation for understanding what succession planning means to agricultural business today.

## Active

Family members working on the farm or in the agribusiness.

## Agripreneur

A person who establishes and/or is dedicated to growing a business (farm, ranch, custom operation, processing facility, etc.) in the agriculture industry.

## Buy-Sell Agreement

A formal agreement facilitating ownership transfer based on triggering events—death, disability, dissolution or divorce. Common provisions of a buy-sell agreement include: valuation, applicable discounts, terms, conditions and restrictions.

## Contingency Plan

Provisions in a comprehensive succession plan that mitigate the financial devastation caused by untimely death, disability and/or deteriorating health.

## Corporation

An organization that is recognized as a separate legal entity and distinct from its owners. Corporations are owned by stockholders (shareholders) who share in profits and losses generated through the firm's business operations. Corporations have three distinct characteristics: (1) legal existence; (2) limited liability; and (3) continuity of existence.

## Discounts

1) Amount deducted from the selling price of a partial interest because it cannot be easily resold (lack of marketability); 2) amount deducted from the selling price of a partial interest because it represents a minority interest in the firm (lack of control).

## Dispute Resolution

A formal process for resolving disputes—may involve a facilitator, mediation or arbitration.

## Durable Power of Attorney

A legal document that enables an individual to designate another person, called the attorney-in-fact, to act on his or her behalf, even in the event the individual becomes disabled or incapacitated.

## Employment Policy

A written statement outlining the necessary education, experience and conditions for employment in the family operation.

## Entity

A standalone business unit usually referred to as a sole proprietorship, partnership, LLC or corporation.

## Estate Plan

A plan to transfer an individual's wealth to his or her heirs while mitigating the estate tax and minimizing the transfer obligations.

### **Fair Market Value**

The dollar value that a willing purchaser may pay for an ownership interest from a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of the facts.

### **Family Limited Partnership**

A family organization with one or more general partners, who manage the organization and assume debts and obligations, and one or more limited partners, who are liable only to the extent of their investments.

### **Inactive**

Family members not working on the farm or in the agribusiness.

### **Intestate**

A term used when a person dies without a will.

### **Irrevocable Life Insurance Trust**

A trust into which the grantor permanently transfers life insurance and cannot alter, amend or terminate the arrangement or retain any incidents of ownership in the life insurance.

### **Leadership Development**

A formal or informal plan of professional development. A complete plan includes educational and experiential elements. It may also include a mentoring relationship and/or networking opportunities.

### **Limited Liability Company (LLC)**

A business structure that combines the limited liability feature of a corporation with the single-taxation feature of a partnership or sole proprietorship.

### **Mentor**

A senior or experienced farm/agribusiness owner who advises, counsels or guides an inexperienced, new or aspiring agripreneur in the aspects of business growth and development.

### **Operating Agreement**

A set of standard operating procedures and management policies specifically designed to maintain the operational integrity of a farm or agribusiness. It may include a decision-making process, income/expense management, dispute resolution, ownership transfer and other terms and conditions of business ownership/management.

### **Passive**

Family members not working on the farm or in the agribusiness.

### **Protégé (Mentee)**

An inexperienced, new or aspiring agripreneur who is seeking the advice, counsel or guidance of a senior or experienced farm/agribusiness owner.

### **Succession**

The process of transitioning ownership from one generation to the next. The elements of a comprehensive plan for succession include: financial security, management continuity, ownership transition, leadership development and estate planning.

### **Trust**

1) Irrevocable: A trust that cannot be changed, amended, altered or canceled; 2) Revocable: A trust established during a grantor's lifetime that is used for the placement of some or all of a person's property.

# SUCCESSION PLANNING ACTION GUIDE

Check off each action step as you move through the succession planning process.

- Decide to secure your legacy.
- Schedule a family meeting
- Distribute "Conversation Starters" (see page 13)
- Define succession planning objectives
- Identify a facilitator
- Schedule a consultation
  - Refine goals
  - Seek commitment from family members
- Conduct research and define corrective actions
  - Business planning
  - Operating agreement
  - Employment policies
  - Other legal agreements
  - Leadership development
  - Ownership transition
  - Financial security
  - Estate planning
  - Dispute resolution
- Agree on an ongoing communication strategy to inform family
- Bring in additional assistance as necessary
- Review annually

## FARM JOURNAL *Legacy Project*

In May 2008, Farm Journal introduced the Farm Journal Legacy Project—a concerted effort to address the succession planning needs of America’s farm families. The Farm Journal Legacy Project is an ambitious effort to provide timely information, practical tools and actionable steps to help farmers create viable succession plans and leave a legacy.

With the support of Pioneer Hi-Bred, the Legacy Project provides a growing slate of resources and experiences to help promote succession planning in what is the single largest educational initiative of its kind in agriculture. The project includes coverage in FARM JOURNAL, TOP PRODUCER and DAIRY TODAY magazines, a weekly eNewsletter, workshops, a monthly television show and a Web site dedicated to the effort.

### KEVIN SPAFFORD



Kevin Spafford was born and raised in rural Northern California, yet he also grew up milking cows on his uncle’s dairy in Wisconsin. During the course of a few formative summers, he fell in love with farm-

ing, went on to earn a degree in agricultural management and spent 20 years in financial services. In 2005, he founded Legacy by Design, a succession planning firm exclusively dedicated to serving America’s agricultural community.

Kevin proudly serves as Farm Journal’s succession planning expert. He blends his passion for agriculture, his experience and his innovation to help create and deliver the many elements of the Farm Journal Legacy Project, including regular columns in FARM JOURNAL, workshops, eNewsletters and as the host of the “Leave a Legacy” TV show.

### PIONEER HI-BRED INTERNATIONAL, INC.

Since its founding in 1926, Pioneer Hi-Bred has focused on bringing the best products and services to its customers and their communities. Pioneer’s support of the Legacy Project is a continuation of that effort.

More than 80% of Pioneer’s customers who are active farmers today want to pass on their operations to the next generation. Through Farm Journal Media, Pioneer helps highlight opportunities, provide structure and give growers resources to help

them succeed with succession planning. Just as Pioneer is dedicated to the success of its customers—through the “right product, right acre” strategy—it is also dedicated to the multi-generational success of growers and production agriculture. It is absolutely critical that farmers follow through with succession planning for American agriculture to succeed and prosper. Pioneer is proud to be the exclusive sponsor of the Farm Journal Legacy Project.





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*Legacy Project*

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