FREE PREVIEW
19 pages of the full 117-page guide - not the paid edition

FREE SAMPLE CHAPTER

BARATELLI INSTITUTE - PRACTITIONER GUIDE SERIES

The Liquidity Event Playbook

90 Before - 90 At - 90 After

SAMPLE CHAPTER IN THIS PREVIEW

Chapters 10-12 -- Deal Mechanics + Net Proceeds + Rollover Equity

19-page preview - drawn from the 117-page full guide

BARATELLI INSTITUTE
Founded by Philip A. Baratelli, CPA, MBA
baratelliinstitute.com

MENTORING AT SCALE

ABOUT THIS FREE PREVIEW

The Liquidity Event Playbook, Free Preview

The Liquidity Event Playbook is a 117-page practitioner reference for the 270 days that bracket every significant private-business sale or executive equity-compensation liquidity event -- ninety days before, ninety days during, ninety days after. Twenty-three chapters covering pre-sale tax structures, equity-compensation fundamentals, estate-planning moves that must happen before close, deal mechanics, the purchase-price-to-net-proceeds waterfall, rollover equity, earnouts, IPO mechanics, closing day, the first week, the investment policy statement, post-close estate planning, and the year-one financial review.

This free preview gives you the cover, the table of contents, the 'About This Guide' framing, the persona reading paths (so you can find your starting point), the 270-day timeline figure, and the strongest single teaching arc in the book -- Chapters 10, 11, and 12: Deal Mechanics the Principal Must Actually Understand, Purchase Price Is Not Net Proceeds, and The Rollover Equity Decision. The price-to-net waterfall and the rollover sizing test are the two single most consequential pre-close decisions an owner makes. If they read like the others, you know what the full guide is.

Read it the way an owner sixty to nine hundred days from close would read it: skim the TOC, locate the 270-day timeline, then read the deal-mechanics arc and check whether your number is anchored to headline or to net -- and whether your rollover sizing actually passes the family's second-concentration test.

WHAT YOU GET IN THIS PREVIEW

Cover - About This Preview - Table of Contents - Reading Map by Role - one full sample chapter

Sample chapter: Chapters 10-12 -- Deal Mechanics + Purchase Price Is Not Net Proceeds + Rollover Equity.

The full guide is available at baratelliinstitute.com. Single-user license; not for redistribution.

baratelliinstitute.com - Single-user license; not for redistribution.

CONTENTS

Table of Contents

About This Guide 5

PART I The Ninety Days Before 7

01. **What Is About to Happen to Your Life 9**
02. **Pre-Sale Tax Structures (Business Owners) 13**
03. **Equity Compensation Fundamentals (Executives) 18**
04. **ISO AMT and Pre-IPO Tax Planning 23**
05. **Section 409A and Non-Qualified Deferred Compensation 27**
06. **Estate Planning Moves That Must Happen Before Close 31**
07. **Family Communication and Governance 36**
08. **Choosing Your Post-Close Advisor Team 40**
09. **The Personal Readiness Audit 45**

PART II The Ninety Days At 49

10. **Deal Mechanics the Principal Must Actually Understand 51**
11. **Purchase Price Is Not Net Proceeds 56**
12. **The Rollover Equity Decision 60**
13. **Earnouts and When to Accept Them 64**
14. **Tax Structuring at Signing 68**
15. **IPO Mechanics, Lockups, and 10b5-1 Plans 73**
16. **Tender Offers and M&A from the Employee Side 78**
17. **Closing Day and the Week After 83**

PART III The Ninety Days After 87

18. **The First Week: What Not to Do 89**
19. **Building the Investment Policy Statement 93**
20. **Asset Protection and the Post-Close Estate Plan 98**
21. **Communicating with Family, Community, and Staff 102**
22. **Identity and Purpose After the Exit 106**
23. **The Year-One Financial Review 110**

Appendix: The 270-Day Principal Checklist 114
Resources & Further Reading 118
About the Author 122
Other Baratelli Institute Guides 123

baratelliinstitute.com - Single-user license; not for redistribution.

WHO THIS GUIDE SERVES

A Reading Map by Role

The 270 days that bracket a liquidity event are not the same 270 days for every reader. An owner twelve months from a sale, an executive ninety days from an IPO lockup expiration, a board chair commissioning a fairness opinion, and a CPA called in three weeks before close each enter the playbook with different urgency and a different starting chapter. Find your situation below and read the chapters that matter most to you first; the rest of the guide is built to be read in any order.

You are...	Read in this order
Owner, 6-12 months pre-exit	- Ch 2 - Pre-Sale Tax Structures (QSBS, F-reorg, personal goodwill) - Ch 6 - Estate Planning Moves That Must Happen Before Close - Ch 7 - Family Communication and Governance - Ch 8 - Choosing Your Post-Close Advisor Team - Ch 9 - The Personal Readiness Audit
Owner, 30-90 days pre-close	- Ch 10 - Deal Mechanics the Principal Must Actually Understand - Ch 11 - Purchase Price Is Not Net Proceeds - Ch 12 - The Rollover Equity Decision - Ch 13 - Earnouts and When to Accept Them - Ch 14 - Tax Structuring at Signing
Executive facing IPO / tender / acquisition	- Ch 3 - Equity Compensation Fundamentals - Ch 4 - ISO AMT and Pre-IPO Tax Planning - Ch 5 - Section 409A and Non-Qualified Deferred Compensation - Ch 15 - IPO Mechanics, Lockups, and 10b5-1 Plans - Ch 16 - Tender Offers and M&A from the Employee Side
Post-close principal (Day 0 to Day +90)	- Ch 17 - Closing Day and the Week After - Ch 18 - The First Week: What Not to Do - Ch 19 - Building the Investment Policy Statement - Ch 20 - Asset Protection and the Post-Close Estate Plan - Ch 23 - The Year-One Financial Review
Board chair / fiduciary advising the seller	- Ch 1 - What Is About to Happen to Your Life (context) - Ch 10 - Deal Mechanics the Principal Must Actually Understand - Ch 11 - Purchase Price Is Not Net Proceeds - Ch 14 - Tax Structuring at Signing - Apx - The 270-Day Principal Checklist
CPA / advisor called in late	- Ch 11 - Purchase Price Is Not Net Proceeds (anchor the conversation) - Ch 14 - Tax Structuring at Signing - Ch 6 - Estate Planning Moves That Must Happen Before Close - Ch 20 - Asset Protection and the Post-Close Estate Plan - Apx - The 270-Day Principal Checklist

baratelliinstitute.com - Single-user license; not for redistribution.

ABOUT THIS GUIDE

Who This Is For, What It Covers

> ***What this guide is.*** *A current-law, single-volume practitioner reference for the 270 / 180 / 90 days before, during, and after a private-business sale — integrating tax-structure comparison, M&A deal terms, post-close wealth architecture, charitable structures, and the founder-identity dimension, with the timelines and diligence checklists to execute. Cited cover-to-cover.*

This guide is written for two overlapping audiences who face structurally similar wealth-transition problems: owners of privately held businesses approaching a major exit, and corporate executives facing meaningful equity-compensation liquidity events. It is written in the voice of a CPA who has sat on the advisor side of enough closings and equity-vest events to know what principals wish they had read before signing.

For the business-owner reader: you own a meaningful stake in a privately held company and are somewhere between sixty and nine hundred days from a sale, recapitalization, IPO, or ESOP transaction. The guide is written at a level that presumes basic business literacy but not technical expertise in tax, trust, or investment matters.

For the corporate-executive reader: you hold substantial equity compensation in a public company, a pre-IPO private company, or a private company approaching a tender offer or acquisition. Your liquidity event may be an IPO lockup expiration, a secondary tender, an acquisition of your employer, a significant vesting cliff, or a structured 10b5-1 liquidation. The post-liquidity wealth-transition problem you face is essentially identical to the business owner's; the pre-liquidity tax and deal-mechanics problems are different and are addressed in their own chapters.

What 'liquidity event' means here.

For the purposes of this guide, a liquidity event is any transaction that converts a meaningful portion of a principal's illiquid equity into cash, publicly traded stock, or other liquid assets. For business owners: a sale to a strategic acquirer, a sale to a private-equity sponsor, a recapitalization, a majority sale with rollover equity, an IPO, an ESOP transaction, or a structured minority sale. For executives: an IPO of the employer, a pre-IPO tender offer, a secondary liquidity event organized by the company, an acquisition of the employer by another company, a major vesting event, or a structured exit from a concentrated equity position.

The center of gravity for business-owner readers is the $10M to $150M transaction; for executive readers, the $3M to $50M post-tax liquidity position. Below these ranges, the structural planning recommendations in the guide still apply but with less complexity; above them, the same mechanics apply with more scale and more specialist coordination.

baratelliinstitute.com - Single-user license; not for redistribution.

FIGURE 1.1

The 270-Day Liquidity Event Timeline

The Ninety Days Before

- QSBS / tax structure finalized
- Trust gifting completed
- State residency documented
- Family conversation underway
- Advisor team assembled
- Personal readiness audit

The Ninety Days At

- Deal mechanics
- Purchase-price bridge
- Rollover decision
- Earnout negotiation
- Tax structuring at close
- Closing + first week

The Ninety Days After

- 48-hour no-action rule
- IPS development
- Post-close estate plan
- Family & community comms
- Identity transition
- Year-one review scoping

Most owner wealth is created by decisions made in the Before window, most is preserved by decisions made in the At window, and most is compounded (or lost) by decisions made in the After window.

baratelliinstitute.com - Single-user license; not for redistribution.

Chapter 10

Deal Mechanics the Principal Must Actually Understand

Purchase agreement architecture, stock-vs-asset-sale tax asymmetry, reps-and-warranties mechanics, and the working-capital adjustment that routinely moves two to three percent of price.

Investment bankers, attorneys, and accountants will run the mechanics of the transaction. The owner will be present for decisions that genuinely require the owner's judgment. The rest is specialized work that the owner should supervise but not perform. The trap, in the ninety days around closing, is that owners often try to learn deal mechanics in real time under pressure — and end up either making decisions they don't fully understand or delegating decisions that should have been theirs.

This chapter covers the minimum mechanics an owner actually needs to understand in order to be a competent principal during the transaction. It is not a substitute for the transaction team. It is the floor that lets the owner supervise the team well.

Purchase agreement architecture.

Every purchase agreement has a consistent architecture: the definition of what is being sold, the mechanics of purchase price, the representations and warranties of each party, the covenants that govern behavior between signing and closing, the conditions that must be satisfied for closing to occur, and the indemnification regime that governs post-close disputes. Owners do not need to draft these sections. They do need to understand what each one does and where their own decisions live.

The definition section controls what the buyer is actually acquiring. In a stock sale, the buyer acquires the equity of the selling entity, inheriting its liabilities with it. In an asset sale, the buyer acquires specified assets and assumes specified liabilities, leaving the rest with the seller. The choice between the two has massive tax implications for both sides and is one of the first structural decisions negotiated.

Stock sale vs. asset sale: the tax asymmetry.

In a typical transaction, the seller prefers a stock sale (single level of capital-gains tax at the shareholder level, no recapture on depreciated assets, cleaner outcome).[1] The buyer prefers an asset sale (step-up in asset basis producing future depreciation deductions, avoidance of hidden liabilities, cleaner outcome on their side). The negotiated outcome depends on relative leverage, industry norms, and the specific tax profile of the selling entity.

baratelliinstitute.com - Single-user license; not for redistribution.

A sophisticated middle path is the Section 338(h)(10) election (for S-corp sales) or the Section 336(e) election — a stock sale for legal purposes but treated as an asset sale for tax purposes, allowing the buyer to achieve the step-up while the seller achieves the cleaner legal outcome.[2] The election requires alignment on tax gross-up (the seller receives higher purchase price to compensate for the worse tax result) and only works in specific circumstances. Owners should know the election exists and ask the tax advisor whether it applies.

Purchase price mechanics.

The purchase price in a typical transaction is not a single number. It is the sum of the base purchase price, adjusted for working capital, less debt assumed, less transaction expenses, plus or minus post-close true-ups, plus contingent consideration (earnouts), plus rollover equity value (if any). The number the owner sees on the cover page of the LOI is usually the base price; the number that hits the account post-close is materially different.

Understanding the specific bridge between headline purchase price and net proceeds is the single most important owner-level exercise in the negotiation period. Chapter 8 covers it in detail.

Reps and warranties: where the post-close risk lives.

The representations and warranties section is where the seller affirms specific facts about the business — financial statements are accurate, no undisclosed litigation, no undisclosed tax liabilities, employee matters are properly handled, environmental compliance is in order. Each rep creates potential post-close liability if it is later proven false. The negotiation around reps and warranties is about which reps exist, what materiality qualifiers they carry, how long they survive post-close, what baskets and caps limit indemnification, and whether Representations and Warranties Insurance (RWI) is purchased to shift the risk to an insurer.

For transactions above roughly $25M, RWI has become standard. For smaller transactions, the reps either sit on the seller's balance sheet as contingent liability or are backed by an escrow holdback. Either way, the owner's post-close liability exposure is defined by the reps and warranties section — and reviewing it carefully, with counsel, is not optional.[3]

Working-capital adjustment.

The working-capital adjustment is a mechanism designed to ensure the buyer receives the business with a normal level of operating working capital (AR, inventory, AP, accruals). If the business is delivered with less working capital than the agreed target, purchase price is reduced. If more, purchase price is increased. The mechanism exists because working capital fluctuates seasonally and transaction timing creates accidental windfalls if not adjusted.

The negotiation around working capital has two dimensions: the target level (usually a trailing twelve-month average or a twelve-month average of monthly balances) and the definitional specifics (what counts, what doesn't, how are cash and debt treated). Sellers who pay attention to working-capital mechanics routinely gain (or avoid losing) one to three percent of purchase price through careful drafting. It is the single most under-watched economic term in mid-market

baratelliinstitute.com - Single-user license; not for redistribution.

transactions.

NOTES

1. Stock-sale tax treatment at the shareholder level: capital gain or loss under IRC §1001 and §1222; long-term rate under §1(h) if held over one year. Asset-sale tax treatment: gain/loss recognized at entity level (for C corps) or allocated to shareholders (for S corps and partnerships); asset-by-asset character based on asset class (capital, ordinary, §1231). Depreciation recapture applies under IRC §1245 (personal property) and §1250 (real property); inventory is ordinary under §1221(a)(1).
2. Section 338(h)(10) election: IRC §338(h)(10) and Treas. Reg. §1.338(h)(10)-1. Requires a qualified stock purchase of an S-corporation target by a corporate purchaser, joint election by buyer and all selling shareholders, filed on Form 8023. Treats the transaction as a deemed asset sale followed by deemed liquidation. Section 336(e) election: IRC §336(e) and Treas. Reg. §1.336-1 through -5 (finalized 2013); similar effect but available for non-corporate purchasers.
3. Representations and Warranties Insurance (RWI) market conventions: policy limits typically 10% of enterprise value; retention typically 0.5-1% of EV; premiums in recent market have run 2.5-4% of policy limit. See ABA Section of Business Law M&A Committee market surveys (Deal Points Studies, published periodically). Key exclusions: known pre-close matters, covenant breaches, specific industry-risk carve-outs. Policy language varies by carrier; broker review essential before signing.
4. Purchase price mechanics, working-capital adjustments, and post-close true-ups are governed by agreement drafting rather than statute. Market conventions documented in the ABA M&A Committee Deal Points Studies for private-target transactions; PitchBook and Mergermarket publish annual summaries of market-term evolution. Working-capital negotiation is one of the highest-leverage line items for seller-side economics.

baratelliinstitute.com - Single-user license; not for redistribution.

baratelliinstitute.com - Single-user license; not for redistribution.

Chapter 11

Purchase Price Is Not Net Proceeds

The full waterfall from headline purchase price to net cash actually received — typically a 25 to 45 percent gap that owners misestimate badly.

The most common and most damaging mistake owners make in the pre-close phase is anchoring to the headline purchase price as if it were the number that will reach the family. It will not be. The difference between headline price and net proceeds — the cash, stock, or other liquid consideration actually received by the seller and their family — is routinely twenty-five to forty-five percent. The bridge is worth understanding in detail before signing.

The waterfall from headline to net.

Start from the headline price. From it, subtract:

- **Debt assumed or retired at close.** In most transactions, indebtedness of the business is paid off at close out of purchase-price proceeds. If the business had $5M of debt, $5M comes out of the purchase price before the seller sees anything.
- **Transaction fees and expenses.** Investment-banker fees (typically 1.5–5 percent of purchase price in the mid-market, higher for smaller deals), legal fees ($150K–$1.5M depending on deal complexity), accounting and QofE fees, insurance (RWI premiums run 2.5–4 percent of policy limit), broker fees, and miscellaneous closing costs. On a $40M transaction, total transaction expenses routinely run $1.5–3M.
- **Escrow and holdback.** A portion of the purchase price — typically 5–10 percent in transactions that use escrow, lower when RWI is in place — is withheld at closing and released over time (typically 12–24 months) subject to no indemnification claims. This is not lost money, but it is not liquid at closing either.
- **Purchase-price adjustments.** Working-capital shortfall against target. Any other specific adjustments defined in the agreement.
- **Deferred consideration.** Earnouts, milestone payments, or installment components that don’t hit at closing. These can represent 10–40 percent of headline price depending on deal structure (see Chapter 10).
- **Rollover equity.** If the seller is rolling over a portion of equity into the buyer’s new structure, that portion is not cash at closing (see Chapter 9).

What remains after these subtractions is gross cash proceeds at closing. From gross cash proceeds, federal and state capital-gains taxes then come out — typically 23.8 percent federal (at the long-term

baratelliinstitute.com - Single-user license; not for redistribution.

capital-gains rate plus net investment income tax) plus state rate (zero in Florida, up to 13.3 percent in California at the top marginal bracket),[1] less whatever QSBS exclusion or other tax planning reduces the bill.[2]

A WORKED EXAMPLE -- HEADLINE-TO-NET BRIDGE

Line item	Amount (USD)
Headline purchase price	$50,000,000
Less: debt retired at close	(4,000,000)
Less: transaction expenses	(2,200,000)
Less: escrow held back	(2,500,000)
Less: earnout deferred	(5,000,000)
Less: rollover equity (illiquid)	(5,000,000)
Cash at closing, gross	31,300,000
Less: capital-gains tax (23.8% fed + 13.3% CA)	(11,612,300)
Net cash at closing	**$19,687,700**

Headline to immediate net: $50M to $19.7M. The owner who has mentally budgeted for $50M is facing a substantial and unwelcome surprise. Plus eventual escrow release ($2.5M less tax), eventual earnout ($5M less tax), and rollover equity ($5M illiquid, with its own outcome at second exit).

The same transaction with $10M of QSBS exclusion, Florida residency, and tighter working-capital and fee management could produce $25-28M of net cash at closing from the same $50M headline. The $5-8M difference is not negotiating skill -- it is structural preparation in the pre-exit window and disciplined negotiation in the transaction window.

Owners who enter the transaction period without a detailed spreadsheet of the headline-to-net bridge — line by line, with each number current and each assumption documented — are negotiating blind. The investment banker will not build this spreadsheet in the form the owner needs. The attorney will not build it. The accountant builds the tax line but not the rest. The owner, or a designated family-office or advisor resource, must own this document from the first LOI through closing.

Every major negotiation point — escrow size, earnout structure, working-capital target, indemnification cap, transaction-expense reimbursement — flows through this spreadsheet. Decisions that look small in percentage terms are measured in millions of dollars on a mid-market transaction. The spreadsheet is how the owner sees the stakes clearly.

NOTES

1. Long-term capital gains: IRC §1(h) (preferential rate of 20% at top bracket; lower rates at middle brackets; statutory brackets indexed annually). Net investment income tax: IRC §1411 (3.8% on net investment income for high-income taxpayers above MAGI thresholds of $250,000 joint / $200,000 single). Combined federal top rate on long-term capital gain: 23.8%. State rates vary (see Appendix of other Baratelli Institute guides for state-by-state detail).
2. Asset-sale allocation of purchase price: IRC §1060 requires buyer and seller to allocate purchase price across seven asset classes on Form 8594, with agreed allocation generally binding on both parties. Character of gain differs by asset class: ordinary income for inventory (§1221(a)(1)) and depreciation recapture (§1245 for personal property, §1250 for real property); capital gain for goodwill and other capital assets under §1231. Partnership interest sale treated as sale of aggregate assets under §751 (hot-asset rules) for ordinary-income components.

baratelliinstitute.com - Single-user license; not for redistribution.

3. Contingent-payment sale treatment: IRC §453 (installment method) for payments received in years following sale; IRC §483 imputed-interest rules for below-market contingent payments; proposed and final regulations under Treas. Reg. §15A.453-1 govern contingent-payment sales with indeterminate purchase price (earnout allocation).

baratelliinstitute.com - Single-user license; not for redistribution.

Chapter 12

The Rollover Equity Decision

How much to roll, what the structural terms actually mean, and the sizing test that protects the family from over-concentration in the second exit.

In many mid-market transactions — particularly those involving private-equity buyers — the seller is invited or expected to roll over a portion of equity into the buyer's new capital structure. The decision about how much to roll, in what form, and on what terms is one of the highest-stakes owner-level decisions in the transaction. It is also one of the decisions owners understand least.

What rollover actually is.

A rollover equity position means the seller retains a minority ownership stake in the business after closing — typically 10 to 40 percent, depending on deal structure. The stake is held in the new holding company established by the buyer to own the acquired business. The seller becomes a minority shareholder alongside the private-equity sponsor, any management rollovers, and any other co-investors.

The economic thesis is straightforward: the business is about to enter a new growth phase under professional ownership, with new capital, professional resources, and aggressive expansion plans. If the thesis plays out, the business sells again in three to seven years at a materially higher multiple. The rollover equity position participates in that second exit on the same terms as the sponsor. For a seller who believes in the thesis and is comfortable with additional illiquidity, the rollover represents a potentially meaningful 'second bite at the apple.'

The structural details that matter.

The rollover is not a simple minority stake. It sits within a carefully engineered capital structure that includes sponsor preferred equity (often with a preferred return), management equity (often with its own preference or incentive structure), and the common equity in which the rollover typically participates. Understanding the waterfall — the order in which distributions flow at second exit — is the key to understanding what the rollover is actually worth in various scenarios.

Owners should ask their counsel, specifically:

- What is the preferred return hurdle the sponsor must clear before common equity participates?
- Is the preferred return cumulative? Compounding? At what rate?
- Where does my rollover sit in the preference stack — pari passu with the sponsor, or behind?

baratelliinstitute.com - Single-user license; not for redistribution.

- What minority protections exist? Tag-along rights, information rights, board observer or board seat, vote on major decisions?
- What happens in a recapitalization that is not a full exit? Do I get pro-rata liquidity, or am I locked in until full sale?
- What is the drag-along threshold? When can the sponsor force me to participate in a sale I don't want?
- How is management incentive equity sized, and does it dilute my position between now and exit?

Each answer matters. Two rollover positions at identical nominal percentages can have wildly different economic outcomes depending on the waterfall, the preferred return, the dilution path, and the minority protections.

How much to roll.

Private-equity sponsors usually propose rollover percentages between 10 and 40 percent, with 15–25 percent being typical. The owner should not accept the sponsor's proposed number without analysis. The right rollover percentage depends on:

- **The family's liquidity need.** A seller with no immediate need for the cash may be comfortable with a larger rollover. A seller funding a specific lifestyle, paying off obligations, or restructuring an estate plan may need more cash at closing.
- **The belief in the thesis.** How realistic is the sponsor's growth plan, given the owner's inside knowledge of the business?
- **The quality of the sponsor.** Track record, cultural alignment, reputation for minority-owner treatment, history of achieving exit multiples consistent with the thesis. These matter more than the deal terms themselves.
- **The owner's risk tolerance.** Rollover is illiquid, concentrated, and subordinated. In a thoughtful post-close portfolio it should not exceed 20–30 percent of the family's total investable wealth.

A note on tax treatment.

Properly structured rollover equity qualifies for tax-deferred treatment under Section 351 or partnership-rollover mechanics — meaning the owner does not recognize capital gain on the rolled portion at closing.[1] The gain is deferred until the second exit. This is a significant value, and it is one of the legitimate reasons to consider rollover even when the cash-rollover economic analysis is close. Losing Section 351 treatment through sloppy structuring is a recurring and expensive error — tax counsel must be involved from the first draft.

> *A rollover is not a minor term. It is a new investment, with a new sponsor, on terms that will govern the next three to seven years of a meaningful portion of the family's wealth. Treat it accordingly.*

NOTES

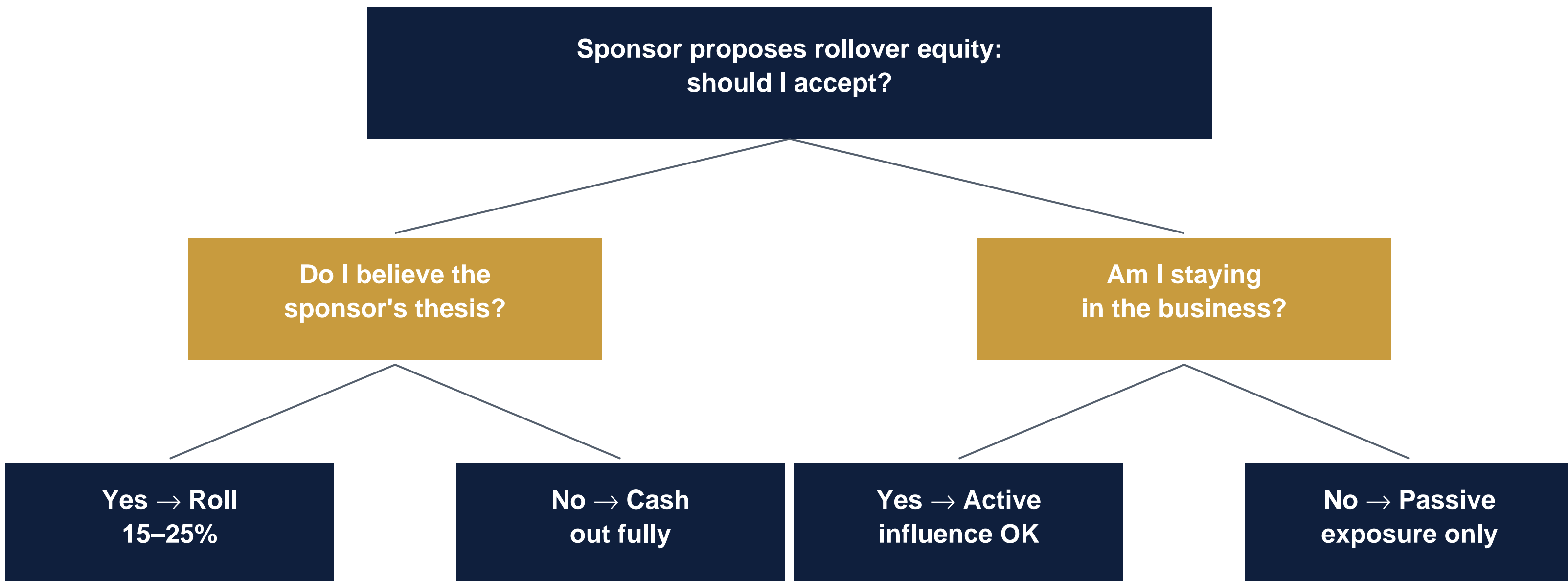
baratelliinstitute.com - Single-user license; not for redistribution.

1. Tax-deferred rollover treatment depends on transaction structure. Into a corporate acquirer: IRC §351 (transfer to a controlled corporation in exchange for stock) if the transferor group achieves 80% control post-transaction per §368(c). Into a partnership or LLC taxed as partnership: IRC §721 (non-recognition on contribution to a partnership in exchange for a partnership interest). Reorganization alternative: IRC §368(a)(1)(A), (B), (C), or (D) reorg patterns — each with specific continuity-of-interest and continuity-of-business-enterprise requirements.
2. Disguised-sale rules: IRC §707(a)(2)(B) and Treas. Reg. §1.707-3 through -9. If the rollover is deemed a disguised sale rather than a true partnership contribution, deferred treatment is denied and the rolled portion becomes taxable at closing. Key triggers: debt-financed distributions from the partnership to the contributor shortly after contribution; cash proceeds received in exchange for property contribution within a two-year window. Conservative structuring avoids these patterns.
3. Minority-shareholder rights in post-rollover structure are governed by the LLC operating agreement or shareholder agreement rather than by statute. Delaware LLC Act (6 Del. C. §18-101 et seq.) provides flexible default rules that private-equity sponsors typically override with bespoke drafting. Waiver of fiduciary duties under 6 Del. C. §18-1101(c) is permitted and common; minority-protection provisions must be explicitly negotiated rather than relied upon by default.

baratelliinstitute.com - Single-user license; not for redistribution.

FIGURE 9.1

The Rollover Decision Tree



The sizing test

- Rollover should not exceed 20–30% of total investable wealth
- Model the second exit at the sponsor's thesis (bull), base case, and zero (bear)
- If the bear case would force a material lifestyle compromise, the rollover is too big
- If the base case wouldn't move the family's long-term picture, rollover adds illiquidity for no reason — take more cash instead

baratelliinstitute.com - Single-user license; not for redistribution.

END OF FREE PREVIEW

Decide. Act. Now.

What you just read is three chapters of twenty-three. The full guide takes the same level of care into the pre-sale tax structures (QSBS, F-reorg, personal goodwill, state-residency planning), the equity-compensation fundamentals (ISOs, RSUs, ESPPs, 409A), the estate-planning moves that must happen before close, the rollover-equity sizing decision, the earnout structures, IPO mechanics and 10b5-1 plans, the tender-offer mechanics from the employee side, the first-week post-close discipline, the investment policy statement, the post-close estate plan, and the year-one financial review.

The companion Excel workbook operationalizes the frameworks -- the price-to-net waterfall, the QSBS qualification checker, the rollover-equity sizing model, the 270-day principal checklist, and the post-close IPS template.

If you are sixty to nine hundred days from a meaningful exit -- owner or executive -- this is the reference. The decisions made in the pre-exit window cannot be undone in the at-window; the decisions made in the at-window cannot be undone in the after-window. The full guide is how you stop making them blind.

GET THE FULL GUIDE

The Liquidity Event Playbook, 2026 Edition

117 pages, fully cited, post-OBBBA, with companion Excel workbook.

Buy on Gumroad: https://baratelliinstitute.gumroad.com/l/svmvxn

$99 - Single-user license - Instant download

Reader-license terms: one named individual; not for redistribution, posting, or model training.

Companion (free): Decide. Act. Now.

Decide. Act. Now. is our free companion guide on how Baratelli Institute readers convert a reference into a calendar item -- the execution and habit-building layer that sits under every guide in the series. Free at baratelliinstitute.com.

baratelliinstitute.com - Single-user license; not for redistribution.