

RESTRUCTURE/CONTRACTOR'S LICENSE BID LIMIT CASE STUDY

CLIENT OVERVIEW

Our client, a general contractor incorporated in 1976, operates as an S Corporation, wholly owned by the President and founder of the company. The client builds commercial buildings and specializes in schools and universities. The client averages \$100 million in gross contract revenues annually.

THE SITUATION

The client approached Warren Averett with a desire to issue ownership interests to several key employees. The client wished to retain control of the business as well as earn a return on his equity that was built over the years of operation. The client also wanted to ensure that his liability exposure was mitigated, both from fellow owners and from third-parties.



THE SOLUTION

We presented the client with several options for structuring the transaction. After discussing the benefits and drawbacks of all the options, the client elected to set up a new Limited Liability Company (LLC). The LLC would have several different classes of membership interests. This structure allowed the owner to earn a preferred return on his equity and grant the employees non-voting interests to ensure that he would retain control of the company and that profits would be allocated in the desired manner. The structure also allowed the employees to purchase their interests at a lower price. The client would continue the construction of in-progress jobs as the S Corporation, but would perform any new jobs as the LLC.

One drawback of this structure was that the client's equity in the S Corporation could not be used to capitalize the LLC. This would negatively affect both bonding and licensing requirements. We negotiated with the client's bank to issue a \$2 million personal line of credit to the owner that would be used as a capital contribution into the LLC. This allowed the LLC to meet the requirements for an unlimited Contractor's License bid limit, as well as secure performance bonds for its jobs. Our past relationship with the client's banker and his confidence in the reliability of our financial statements gave him the assurances needed to suggest the approval of the loan that many banks might not have approved.