



Sell Your Business, or Stay?

By David Mahmood

WHEN THE BELOVED JOURNALIST of “Meet the Press,” Tim Russert, died suddenly at his desk last summer, the nation mourned his passing. Behind the scenes, his producers faced not only their grief, but also a conundrum: what to do next. To a certain extent they still struggle, with no plan for the venerable program.

Dancing the last dance, reaching the finish line, pushing up daisies; euphemisms employed to avoid the D-word. Because we avoid thinking about death, we often defer planning for it. For privately-held or closely-held businesses, the lack of succession planning can be catastrophic.

Do your family, your colleagues and your business a favor. Plan for their future and potentially enrich your own!

ASK YOURSELF SOME QUESTIONS

Many business owners drive a company forward, often with great foresight and proactive planning, yet, surprisingly, fail to plan for the thing that could impact their company the most: their own passing. Without proper succession and business planning, the unexpected death of a business owner can leave the fate of their company in a precarious state. Family members and business colleagues are left ‘holding the bag’ as they mourn the loss personally, and miss the vibrant leadership that propelled the business for so many years. If you’ve read this far, you already know it’s time to explore your options. Ask yourself some questions:

- If something happens to me today, who will run the company tomorrow?

- Will a partner take the reins of the company, or will my heirs step in to run the business?
- How much will the estate taxes be; have I appropriated sufficient funds?
- If I will shares to my spouse or children, are they willing to stay on and run the company or do they prefer liquidity?
- If I have a partner, will his or her interests conflict with that of my heirs?

These questions and many others deserve careful thought and consideration. Ultimately, you should have a well-defined succession plan in place which you share with family members, partners and possibly key employees. It’s never too early to consider your options.

CASHING IN, NOT CASHING OUT

The best plan for you might be to sell the company, but stay on and run it for a set number of years. This allows you to take a significant amount of cash off the table, meet the needs of your estate and protect your family and your personal retirement.

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stay on and work for another five to seven years gives you time to plan your exit strategy. You will have taken care of your family, prepared for the needs of your estate and set in place the opportunity for a fulfilling retirement. This step can also revive your business by giving you capital to grow and the freedom to make sound business decisions for the future.

This type of sale—one in which the selling shareholder agrees to stay on and drive the business forward—can be done while you retain an equity stake in your company; that equity hold can be as significant as you wish. At the end of five years you have, in effect, a second sale opportunity.

During that time, as you grow the business with your new buyers, you will have eliminated the risk of investing your own capital. If the business does continue to grow, you'll enjoy the rewards of your retained equity rising in value. In short, this plan provides you with significant cash in the near term, future employment while you drive the business forward using other people's

money and another significant reward when you sell your last piece of equity in a few years.

START PLANNING NOW

The sale of a business in today's market can easily take nine to 12 months. Agreeing to work another five years means you need to plan a minimum of six years in advance before you even consider full or partial retirement. Are you working on that now? If it isn't part of your current planning, you could be setting up your company for a difficult future.

You may find it valuable to turn to an investment banking firm for advice. Look for one that specializes in helping owners of privately-held and closely-held businesses walk through these important decisions. They can offer you options on how to position your business, prepare it for sale and maximize your return in both the short and long term, well before you, ahem, . . . get your wings.

David J. Mahmood is the founder of Allegiance Capital Corporation.

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