



Exit Planning Information and Education for America's Business Owners

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PROVIDED BY:



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Helping Families Preserve and Protect Assets and Values

Issue 141

Should I Sell My Business Now?
Examine Your Personal Motives First to Determine Your Readiness: Part Two

This issue is provided to you by Weatherby & Associates, PC Attorney, Henry Weatherby.

As we introduced to you in the last Exit Planning Review™ newsletter, the personal decision to sell your business is usually based upon some combination of the following:

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- I A desire to “take the chips off the table.” Your tolerance for risk just isn’t what it used to be.
- I The joy of going to work each day is fading. Not only has the fire in your belly gone out, but it’s been replaced by the desire to do “something else,” known or unknown.
- I The “Successor Designate” can’t or won’t succeed. Neither child nor employee is able or willing to fill your shoes.
- I You realize that now is the time to sell because you can attain financial security.
- I There are a lot of activities other than running a company that you still want to experience.

We previously looked at the first two personal motives that can influence your timing on selling your business — taking chips off the table and losing the fire in your belly. We will follow up on this discussion by looking at the next two personal influences that can support an owner’s decision to cash out of their business and move on to the next stage of their life.

The Successor Designate Won’t or Can’t Succeed

A “Successor Designate” is anointed from within the business (a key employee or usually two) or from within the family (a child or two). If no one has:

- a. stepped forward;
- b. the talent to take the business to the next level;
- c. demonstrated sufficient commitment to the business (at least equal to what yours had been); or
- d. the money now or through future cash flows from the business adequate to buy the business;

then the business has become too valuable or too complex to transfer to anyone other than an outsider. Let's look at how one fictional business owner tried (and failed) to lure his desired successor into ownership.

It was the most unexpected outcome imaginable. Dick Langenberg owned a water drilling service (highly demanded in the eastern plains of Colorado) that had prospered for the last 20 years. As a careful, conservative businessman of the "old school," Dick had amassed a significant fortune outside of the business — a business that earned \$1 million or more each year. One of Dick's Exit Objectives then, was to reward the key employees who had helped build and sustain his successful company. After much soul searching, Dick decided to give the business to his key employees. They would pay him nothing out of their own pockets.

The mechanism Dick used to give the business away was to have the business contribute money to a separate fund for three years. At the end of that time period, Dick would receive the money in the fund as a down payment for the purchase of the company. The down payment would equal 50 percent of the purchase price. The remaining 50 percent would be paid to Dick over the subsequent six years from the available cash flow of the company. If cash flow was insufficient, Dick was willing to accept a longer pay out period, although if cash flow continued as expected, it would be more than adequate to pay Dick the remaining balance.

In short, Dick would pre-fund his own buyout with three years of revenues (money he would otherwise be entitled to) and would obligate key employees and the company to provide the remaining 50 percent of the payment — solely from the future cash flows of the company. In essence, Dick was giving the company to his employees.

At the end of six years, without one penny coming from their own pockets, Dick's employees would own a company producing at least \$1 million of cash flow per year. Imagine Dick's surprise when their unanimous response was, "Thank you very much, but we don't want to own the company. There's too much risk in this business." Dick's Exit Planning Advisor was not nearly as surprised as Dick because through experience the Advisor had come to realize that many key employees — wonderful, valuable and contributing employees that they are — simply have little tolerance for the risk that is part and parcel of business ownership. In Dick's case, the employees weren't even willing to be given the company.

There's More to Life than Building and Running a Company

Many business owners reach a point where they realize that there are a lot of things "out there" that they want to do while they are young enough to enjoy them. Active vacations, spending time with family and friends, service work, personal growth and development are all items that appear on owners' lists of things to do. These items remain on the list because owners are simply too busy running their companies to pay them more than passing attention.

Many Boomer owners, in particular, are deciding to pursue a second life or second career full of possibility, activity and involvement. This crowd gravitates toward race car seats, rather than toward rocking chairs. To be strapped into the driver seat, owners need financial, emotional and time freedoms.

If you find yourself falling into one of these categories, then the time may be now to call our office to begin creating a plan for preparing your business for your eventual exit. We can help guide you through the process of reviewing all of the factors associated with exiting your business and creating a comprehensive Exit Plan that addresses all of your personal and business objectives.

*Subsequent issues of **The Exit Planning Review™** discuss all aspects of Exit Planning. The provider of this Newsletter ([Henry Weatherby](#)) offers you unbiased information about what you may need to know — *How To Run Your Business So You Can Leave It In Style™*.*

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The example provided is hypothetical and for illustrative purposes only. It includes fictitious names and does not represent any particular person or entity.

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