



Exit Planning

NAVIGATOR

Exit Planning Strategies for the Entrepreneur



Issue 62

Continuity of Ownership

The Second of an Owner's Business Continuity Concerns

In the previous issue of this newsletter, we discussed the first of three issues that business owners must address if they want their companies to continue should they die or become disabled. The first issue was the continuation of ownership. The second, and the subject of this issue, is the company's loss of financial resources.

Issue 2: Company's Loss of Financial Resources

Problem for Co-owners. If you co-own your company and you, personally, are a principal source of financial funding (bond guarantees, line of credit guarantees, etc.) your death can put enormous pressure on your company to perform. There is a very real risk that third parties may refuse to lend or to make guaranties on behalf of your company.

Problem for Sole Owners. Unless you can replace the financial strength, represented by your financial statement, your sudden death or incapacity may cause other "stakeholders" in your company to reconsider their relationships to your company. For example, if you have personally guaranteed the company's line of credit or permanent financing, expect your bank to reexamine its lending relationship. If you have used your financial statement to obtain bonding, expect the bonding company to refuse to extend its services unless the financial statements of those left behind are as strong as yours. Similarly, the lessor of any leased space or equipment may be unwilling to renew leases without your successor owner's guarantee backed by his or her personal assets. Finally, remember that your pocket has probably long been the source for your company's capital needs over the years. Should you die or become disabled, exactly where will your company secure adequate and ongoing capitalization?

Solution for Sole Owners and Co-Owners. There are two ways to prepare for the loss of financial resources that your death will create for your company. First, you can use life insurance proceeds to fund the anticipated need. You must place enough cash in the company's coffers (upon your departure) to calm the nerves of your company's bankers, lessors and bonding companies. That amount of cash must also satisfy your company's need for on-going capitalization. In a co-owned business, a buy/sell agreement simply buys out the deceased owner's interest. It does not put one penny in the company's coffers. For that reason, few companies (whether solely or co-owned) survive an owner's death.

Understand, however, that life insurance proceeds are only part of the solution. If your company is to succeed, long term, it needs more than cash. It needs successor management, motivated by ownership or cash (both current and deferred). The only way to make sure that your business continues without you is to make sure that you business is more than just you. If your company is all about you, no amount of life insurance will cover your absence.

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(continued)

In the next issue of this newsletter, we will examine the third continuity issue facing companies whose owner dies or becomes disabled: the loss of key talent and its affect on employees and customers.

*Subsequent issues of **The Exit Planning Navigator®** discuss all aspects of Exit Planning.*

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