

# THE C & D NEWSLETTER



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## BUSINESS SUCCESSION

Most businesses have one or two key individuals who create the environment for success. In a smaller business, the loss of the owner can be a fatal blow. Planning for business succession includes the following options:

1. *Wind Down.* The wind down and closing of a business can be a very difficult and costly process. There are often commitments with significant liability, including leases of office space and equipment as well as long term supply contracts. Provisions can be drawn into these agreements protecting the business from a key person's death or supplemental life insurance may be required to protect the business.

2. *Family Succession.* If the plan is to have your children take over the family business, make sure they have had time to mature into the roll and that the most important aspects of operations for survival have been handed down. This should include a properly planned internship program and developing relationships for successor family management with key consultants and management personnel.

3. *Management Buyout.* Management buyouts work best when they are planned and the parameters for the purchase are established in writing in advance. The buyout agreed to by management will include purchase price and terms, but the critical element is management succession. If additional management talent is required, it should be a part of the succession and buyout plan. Often, the purchase is leveraged and the balance of the payments due are contingent upon continued business success.

4. *Sale of the Business.* Determine the real assets which are being sold and their real value to an outside buyer without the key manager. Many businesses depreciate significantly after the loss of the entrepreneur who founded the company. For a business to be saleable for full value, the buyer must feel secure of continued success, which may require a sale of the business during the manager's lifetime with a continued employment agreement for some period of time, or it may mean establishing special compensation packages for other key employees to insure their continued employment.

The negative impact of illness, disability or death of a business owner can be significantly reduced with advanced planning. A succession plan may include bringing in supplemental management talent, entering into a buy sell agreement with partners, training your family to take your place, and/or creating a market for the business to be sold. These options should be reviewed, carefully discussed and a plan put in place as a part of a complete estate plan.

Each business has its own personality. The ideal plan varies depending upon the size, type, makeup and characteristics of your business.

*This complimentary newsletter is intended to provide general information. Because of the complexities and constant changes in the law, it is important to seek professional advice before acting on any of the matters covered herein.*