

## NETWORKING CAN WRECK MY BUSINESS??

In 1974 John Naisbitt wrote a book that predicted a trend for the 90s – NETWORKING. We've spent nearly 20 years being networked to distraction in business groups, churches, social clubs and the like. We're encouraged to network for everything from a new job to a new mate. Most of the time it *is* a good idea to share your needs and interests with those you already know. Most of the time networking *is* an effective way to promote business objectives. **When is networking in your business a truly terrible idea? When you network your company stock!!**

How does this happen? Anytime a portion of your company ownership ends up in the wrong hands as the accidental result of a poorly-designed business or estate plan. With proper planning, business owners can offer stock for sale to employees to reward them, to encourage them, and to evidence their importance to the future of the company. Stock or partnership shares are often transferred to children for estate planning reasons. These transfers usually produce a good result, but there *are* situations where stock gets transferred without due diligence given to the outcome.

Some examples of these potentially disastrous situations follow:

- ◆ Your key employee decides to leave for another opportunity and you never got around to signing that shareholder's agreement or designating the price and terms by which you would recapture the stock.

Cartoon couple courtesy of Hallmark

- ◆ Your daughter ends up in an unfriendly divorce, and your stock gets distributed in the settlement. Subsequently you see your company shares transferred to her ex-husband's new family who have no interest in you or your company other than how much you'll pay to get them back.
- ◆ Your partner takes a hard turn on his new Harley just days before he was going to buy that helmet. His ex-wife is a friend of yours, but his current, recent wife is only interested in the income you'll provide her.



Your assistant whisks in your new business partners!!

What are the practical problems created by these scenarios?

1. Stockholders can demand to see your financial records and review your compensation, and can even question the means and amount of your compensation as CEO of the company.
2. In a company with a small number of share-holders, a line of credit may require signatures and personal guarantees from all shareholders.
3. SBA loans are generally limited to companies where the shareholders and executives are the same people.
4. When you decide to retire and sell the company, a 1% shareholder can defeat the sale if he decides the price is inadequate . . . or if he simply wants to cause trouble. How do you prevent an unplanned shareholder? Turn the page for my suggestions ~ ~ ~ ~