

NETWORKING CAN WRECK MY BUSINESS??

By Don See, CLU

In 1974 John Naisbitt wrote a book that predicted a trend for the 90's – 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* 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.
- ❖ 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.

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?

Simple precautions to reduce the risk of having a stranger as a partner

- ❖ **DON'T SELL OR GIFT BUSINESS INTERESTS WITHOUT CLEAR, THOUGHTFUL ADVICE.** Your attorney, accountant, and succession planner can help you assess the relative risks and implications of such transfers. You should consider the legal ramifications, the financial implications and the potential problems related to employer/employee or family dynamics.
- ❖ **ALWAYS INSIST THAT AN UP-TO-DATE SHAREHOLDER AGREEMENT IS SIGNED, VALUED AND UNDERSTOOD PRIOR TO MAKING ANY TRANSFER.** The most important provisions of this agreement will deal with a clear "recapture strategy" for the stock, particularly in the event of death, disability or the voluntary termination of the employee. Different stock values and payment methods may be appropriate for each event.

- ❖ **FAMILY BUYOUT PLANS CAN ELIMINATE THE MOST DIFFICULT OUTCOME – MAJOR CONFLICT AMONG HEIRS.** Where a family-owned company has some children or grandchildren who work in the company and some who do not, serious consideration should be given to a funded, guaranteed buyout plan between the employed children and their majority-owner parents. It is often better to provide children who work in a family company the ability to buy their parents' interest at their eventual demise rather than forcing them to work for siblings who may not share their understanding of the financial realities of running a business.
- ❖ **REVIEW YOUR STOCK PROTECTION PLAN EVERY COUPLE YEARS –** if you have one. If you don't, give us a call and we'll help you get one.

A CUP FROM HARVEY'S WELL.....

“IT ALL COMES DOWN TO THIS:
IF YOU WANT ONE YEAR OF
HAPPINESS,
GROW GRAIN.
IF YOU WANT 10 YEARS OF
HAPPINESS
GROW TREES.
IF YOU WANT 100 YEARS OF
HAPPINESS GROW PEOPLE.”

“A network is the result of a lifetime of caring about people, of learning about them, listening to them, spending time, paying attention.”

“The master in the art of living makes little distinction between his work and his play, his labor and his leisure, his mind and his body, his information and his reaction, his life and his religion. He hardly knows which is which. He simply pursues his vision of excellence at whatever he does, leaving others to decide whether he is working or playing. To him, he's always doing both.”

-James Michener