

Be Careful Who Owns A Piece Of your Rock!

Philip had the world by the tail! He had just bought a long-standing, successful business from his wife's parents and left the world of corporate America behind for good. It seemed like the ideal succession plan, one I would have been proud to design from the beginning. The in-laws got a 15-year income stream, kept the business in the family, and could drive by the store any time and see the same sign that had been there for decades.

I was not called in until long after the papers were signed and the checks started to flow. Philip's CPA had concerns about the way the purchase had been structured, The price agreed upon seemed high, and would possible overtax the company's ability to generate cash flow, When I got involved I discovered **that the in-laws had also kept a 10% ownership share, just for old time sake!** *After all, minority shareholders can't really do anything with their stock, can they?*

Things went along smoothly for the first few years, although cash was always tight. The first signs of trouble weren't in the business, but in the marriage. Philip and his wife began to argue about finances, about the children, and about his perception that her parents had demanded too high a price for the company. The relationship deteriorated, as did the business, and Philip began to cut corners with vendors, creditors, and even with the tax man. Eventually, it became clear that Philip needed to cut his losses and find a new career. He found a cash buyer who would pay a fair price for the assets of the business. With luck, it would be just enough to pay off all the debt and to finish paying the note to the former in-laws for the business. All they had to do was turn over their stock to the new owner.

They refused! They were counting on the interest and didn't seem to understand that the payoff could be reinvested and earn interest in something safer. Or maybe they

did understand. Maybe they didn't want to let their ex-son-in-law off too easy. I don't really know and I'll never know.

The business assets were eventually auctioned off to pay back taxes, and neither Philip nor the in-laws ever saw a penny from the sale. Believe it or not, this is not a unique situation. I run into similar cases occasionally, and it always frustrates me that with a little foresight, planning and good advice, this type of nightmare can be avoided. A 1% shareholder can prevent you from selling your business, getting a SBA loan, renewing your line of credit or signing a lease. This issue is a reminder to be careful how you **PASS IT ON!**