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Problem: Company's Loss of Financial Resources.... Solution: The Business Continuity Agreement

Michael Wildeveld, CEPA, M&AMI, CM&AP, CM&AA, CBI, CBB
michaelw@veldma.com

Veld Mergers & Acquisitions
www.veldma.com
1 Park Plaza, 600
Irvine, CA 92614
310-652-8066

Rick White and his son Josh thought they had done everything necessary to preserve their business, J&R White Co., in the event one of them died. They created a Buy-Sell Agreement, received an accurate valuation, and fully funded their arrangement with life insurance on each other's lives.

Imagine Josh's surprise when, shortly after his father's sudden death, he and his business (which he now owned as a result of the successful operation of the Buy-Sell Agreement) were in imminent danger of being shut down.

What happened? In order to purchase the steel girders necessary to build highway bridges, J&R White Co. periodically needed to draw quite substantially on its Line of Credit (LOC). Its bank and the bonding company looked not just to the assets of the company but also Rick White's personal collateral and guaranty to support the LOC. Josh's personal net worth was but a small fraction of his father's, and when Rick died, neither Josh nor J&R White Co. had sufficient resources to back up the LOC. As a result, the lights went out on J&R White Co.

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 re-examine 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 wallet has probably long been the source for your company's capital needs over the years.

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 untimely 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 ongoing 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, many companies (whether solely or co-owned) fail to 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.