

## DO YOU NEED AN EXIT STRATEGY?

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Many people believe it is important to plan your “exit strategy” when you start a new business. Don’t worry, if you have not done this yet and your business operations are under way, it is not too late (or too soon) to start planning. There are many issues to consider in this planning process, but before you start, you will need to think about why you started your business. Are you in business to acquire wealth; to create a job for yourself; or to build a significant business to pass on to your children? Why you started your business, and how you want to exit it, should drive the way you operate and grow your business.

So, what are your options? The most common choices are: (1) pass the business along to your children or other family member; (2) sell the business as a going concern; (3) liquidate the business and sell the assets; or (4) if the business is in substantial debt, file for bankruptcy. To pursue the first choice, you need to have a family member who is interested in the business and qualified to run it someday. The second possibility, selling the business, will be most profitable for a growing company during an upturn in the economy when interest rates are low. There may also be times when you need to sell because your partnership is dissolving, personal circumstances dictate you get out, you have decided to retire or have made the decision to start another business. In these situations, if you cannot find a willing buyer, you may choose to liquidate. In any case, planning for both the expected and the unexpected early in the life-cycle of a business will save you money and headaches at the end of its life under your ownership.

Whatever option you choose for your exit strategy, you are more likely to exit successfully if you have entered with careful planning. You may be tempted to form your own entity and write your own contracts to save on front-end expenses. But this savings may be overshadowed when you exit if your contracts are too vague or if you have failed to adequately protect your interests. Whether you are just starting your business or are in full operation, here are four issues to consider:

- *How do I protect myself from liabilities associated with my business?* Before you even open your doors, you should to consider the type of entity that best suits your business. Some of the issues to consider and discuss with your legal and tax advisors are (1) will this be an active or passive investment, (2) will I own real estate, and (3) do I plan to bring in an investor now or in the future? Creating a business entity and maintaining it so that your business and its assets are protected to the maximum extent of the law is advisable for almost all business endeavors. The type of entity, its benefits and limitations, its maintenance, and the need for insurance are concerns that require solid advice from your advisors.

- *How do I accurately evaluate my business?* When you exit, you will need to know the value of your business. This is best accomplished if you start from the beginning with clear, consistent, and comprehensive bookkeeping, payroll, and accounting. If you have a business partner, from the very start of the relationship it is important to enter into clear agreements regarding any break-up in the partnership, admission of new owners, ownership percentages, and governing rights.

- *How do I protect my assets?* If your name is important to your business or if you are creating technology or products, make sure your agreements address ownership rights and assignment of inventions by owners and employees. You will need to have a license agreement if you let others use your name or products. In addition, make sure property owned by the business is held in title by the entity and not by one of the owners personally. Protecting your ownership rights on the front end is better than finding you do not have them when you want to exit.

- *How does my exit strategy affect my business planning?* If your goal is to attract a lucrative buyer, then you should focus your growth planning on increasing the value of your business. This may mean making investments in facilities and equipment. If your thought is to continue in the business in some sort of a role after the sale, then you may search for a more strategic partner who has similar facilities or equipment. A strategic partner may find product development or an aggressive marketing and sales program attractive. If you plan to pass the business to your children or sell it to your employees, you need to consider your own financial needs in retirement. If you plan to pass the business at your death, you will need to address whether you have enough life insurance or other capital to carry the business through the transition.

There are many issues to consider, but for each of them, early planning both for the foreseen and unforeseen exit from your business will make the transition smoother and more cost effective.

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