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Business Succession Planning

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A business succession plan is essentially an exit strategy for a business owner. A succession plan helps to facilitate an orderly transfer of a business from the current owners to the next generation of family members or to other parties, such as employees. Most business owners are reluctant to face the challenge of developing an effective succession plan because it forces them to confront their own retirement, and because it is a time consuming process. However, it is important for business owners to plan for the future of their businesses in order to monetize their investments and secure the continuation of their business. In contrast, the absence of a succession plan leaves much to chance, as disputes between heirs of a deceased owner or between heirs and employees can lead to unintended and disappointing results.

Due to the complexities involved in developing a comprehensive estate and succession plan, it is essential for business owners to seek professional advice. Business owners should look to estate planning or business attorneys experienced in business succession planning. An attorney experienced in succession planning can provide valuable personal, business and legal advice. Succession planning involves negotiating with the chosen successor, as well as drafting simple but effective legal documents. Important questions for the business owner to ask an attorney include business valuation, financing terms, possible earn-out, employment agreement including non-compete provision, buy-sell agreement terms, and keyman and purchase price funding insurance. These issues are essential considerations when structuring an effective succession plan.