

Wake Me Up, Before You Go:

The Importance of Succession Planning

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Entrepreneurs begin their businesses with excitement and hope. They consider their partners carefully; here I'm using "partners" in a general sense and am not referring just to partnership entities. However, many seldom consider, especially at the outset, how to plan for the possibility that an owner could die while the business is operating. Such provisions are critical when the partners participate in operations.

For example, in a partnership without a succession plan, the death of a partner can result in her interest passing by will to her heirs. The surviving partners may not have the ability to carry on in the deceased partner's footsteps. They might be infants, estranged, or merely incapable of bringing the same skill set to the partnership as the original partner.

Perhaps most important, heirs unfamiliar with the food and beverage industry often fail to understand the value of their ownership interests, concluding that a loud, packed house on the weekends means they will never have to work again.

On the other hand, if a succession plan is in place, the partnership interest will not necessarily pass to a stranger. The arrangement might give the company, or the surviving partners, the right to purchase the deceased partner's interest from the heirs, either with cash, a promissory note, or the proceeds from a life insurance policy on the partner. The heirs get money, and the remaining owners are not saddled with the burden of being partnered with someone(s) they never anticipated.

Partnership and limited liability company agreements, as well as corporate bylaws, are ideal places to include provisions governing such worst-case scenarios. A "Buy/Sell" Agreement is another vehicle that can be used to achieve this result.

Implementing a succession plan is an important step in the maturity of a business. This step, however, should not be undertaken lightly, and will likely need to involve the company's accountant, attorney, and insurance broker. Put a plan in place, and hope you don't go first.



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