

PLANNING FOR THE UNCERTAIN

CREATE A VIABLE SUCCESSION PLAN TO HELP SMOOTH THE TRANSITION AFTER YOU'VE GONE.

BY LORI JOHNSTON

SOUTHWEST FLORIDA'S CLOSE-KNIT business community mourns when business leaders and well-known professionals pass away, leaving a void in their industries, local boards and community organizations.

It's difficult to fully prepare for the emotional impact of the loss of a boss, colleague, family member or friend. But

when companies try to pick up the pieces, their ability to survive depends on the steps taken before the owner's death.

Succession planning is vital for a business to maintain its value, to leave a legacy for your family members and to continue to operate properly, experts say.

Creating a succession plan, however, requires not just legal and financial insight, but having a long-term outlook and dealing with your own mortality.

People who fail to do succession planning are assuming that they are going to live forever and no one can replace them, says Dr. Bob Pollack, medical director at Park Royal Psychiatric Hospital in Fort Myers.

"The denial of the reality of their own mortality is No. 1," he says. "It comes down to the pathological narcissism of the

person who can't let go and believes they're immortal and doesn't really give a darn what happens when they die."

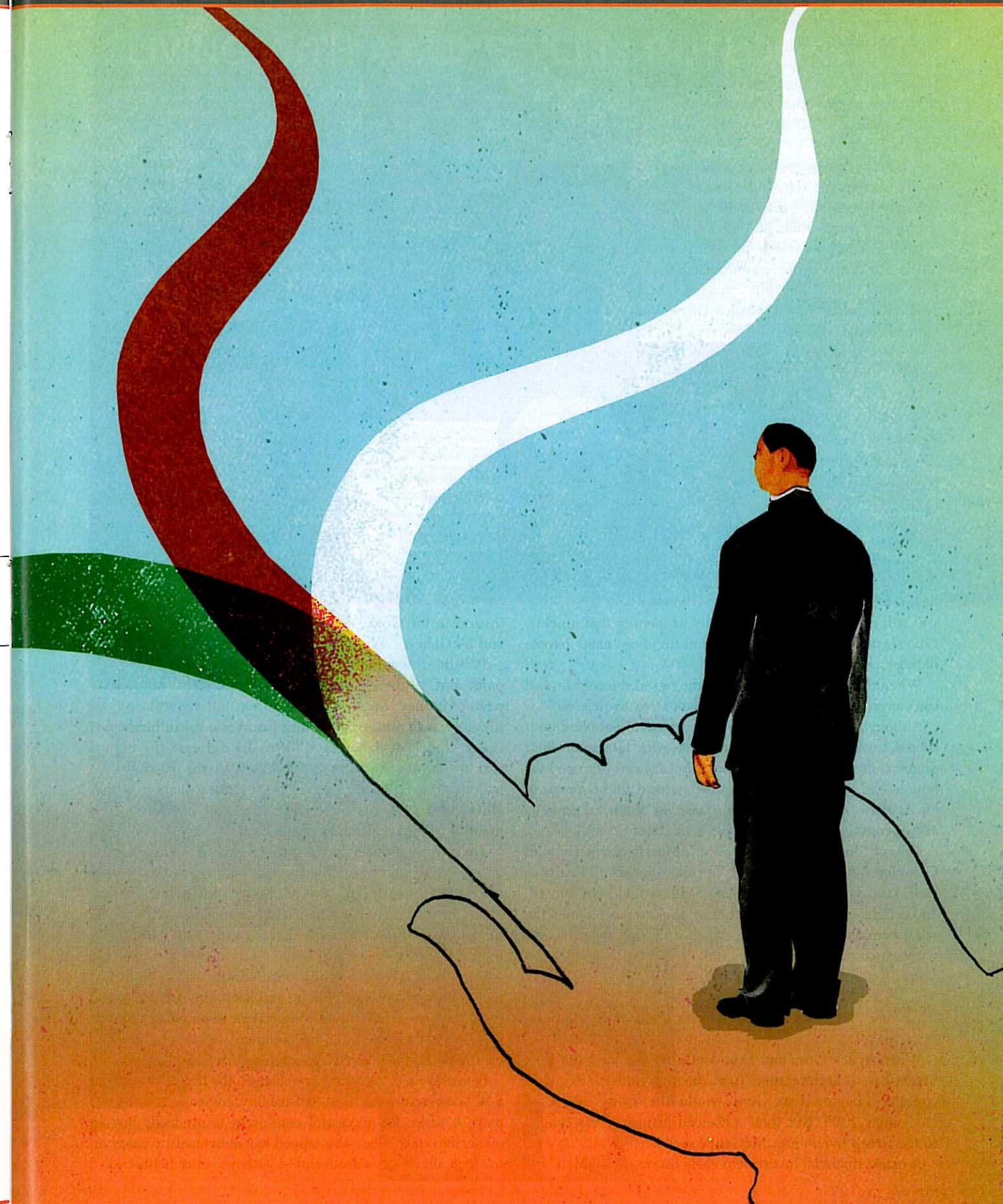
The lessons learned by two Fort Myers businesses before and after their owners' deaths offer important insight for succession planning.

VIP REALTY, COMMERCIAL (FORMERLY SANDS COMMERCIAL GROUP)

The April 2010 passing of Paul Sands came as a shock to many of his clients, who were unaware of his battle with cancer. At the same time, there was little planning for the unexpected death of Sands, a longtime and vivacious figure in commercial real estate.

"There was no pre-planning before Paul's death," says Lisa Sands, Paul's ex-wife, who remained a close friend. The lack of a succession plan led some to believe that "if Paul Sands isn't here, there is no VIP Commercial," Lisa says.

Sands had transferred his ownership to VIP Realty owner Charlie Ashby before his death, and Sands Commercial Group merged with VIP Realty. It was left to Ashby to create a plan filling the void left by Sands. After Paul's death, Ashby asked Paul's son, Nick, to move from Orlando to



Southwest Florida and take on his dad's book of business, but Nick wasn't prepared to do that. Then Ashby called Lisa Sands, who at that time was working for a developer at Miromar Lakes, and asked her to return to VIP Realty, where she and Paul met.

"I was like, 'Oh wow, I have no idea, let me think about it.' He said, 'You've got the right last name,'" she recalls.

Lisa spoke to Nick and they made a family decision for her to return to VIP Realty. Lisa, who was married to Paul from 1996 to 2006, started as advisor/manager of VIP Realty Group, Commercial less than three weeks after his April 14 death.

"We didn't want to lose Paul and everything he had worked for for 20 years," she says.

For months, Lisa had to relive Paul's death by explaining his passing to clients.

"We all think we're invincible. Even when he knew he was dying, you still didn't believe it was really happening that quickly. Once it did happen for him, it's amazing how many people didn't know," Lisa says.

When one client learned about the news, she told Lisa, "I can't even talk to you right now. I have to call you back."

Although Lisa had previously worked with Paul and continued to own and manage property with him after their divorce, she wished she could have been more prepared for how he did business. He had an estimated 5,000 contacts in his database, and she had many questions about his strategy and operating procedures for different clients.

One of Sands' close friends, Mark Morris (formerly with Commerce Bank of Southwest Florida), joined VIP Realty as well. Lisa says that was something Sands would have wanted. To keep the connection to Paul, the company has retained the www.paulsands.com website, which is interchangeable with www.vipcommercial.com.

GORA MCGAHEY ASSOCIATES IN ARCHITECTURE

When Bruce Gora and Dan McGahey founded the Fort Myers-based architecture firm in the mid-1980s, they couldn't imagine that Gora would die from cancer in December 2009. But their advanced planning was crucial to the firm's livelihood, McGahey says.

A major financial investment early on was "Key Man" life



Lines of succession: When Paul (above at Hilton Head) died, a lack of planning left doubt as to whether his business would go to son, Nick, (left, middle) or ex-wife, Lisa (right).

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insurance for Gora and McGahey.

"While it was painful at 35 to be paying money for life insurance and for disability insurance ... in hindsight, thank God," McGahey says. "It really did ease the bumps and the lows that were inevitable with the passing of a major partner. It took care of those issues financially that allowed us to focus on architecture and continuing the management of continuity of the firm."

The insurance policy gave a small stipend to the firm for use in "weathering the storm following his passing," McGahey says.

Another investment was disability insurance, which McGahey says provided financial assistance to Gora and the firm during his battle with thyroid cancer (he was diagnosed in September 2006).

"We were able to put him on disability and take advantage of those insurance policies and keep him solvent with a steady income that's actually equivalent to being on the payroll, and at the same time, the company was able to take him off the payroll and save that expense," McGahey says.

Before Gora's diagnosis, they changed the firm's status from a "C" corporation to a limited-liability company in order to make it easier for successful employees to gradually buy an ownership stake. They also tapped key individuals to carry on the firm after Gora's death and McGahey's retirement.

LIVING WITH A LONG-TERM OUTLOOK

A business that relies too much on a single person or a team of leaders could experience catastrophic results if those individuals pass away without proper succession planning, experts say.

"You lose one of those persons and you can basically lose the business," says Kevin Carmichael, partner for Salvatori, Wood & Buckel in Naples.

But succession planning isn't a last-minute step.

It can take several years to create a succession plan, but Carmichael says that often people aren't thinking about the long-term health of their business until they experience an injury or get sick.

Many people tend to put it on the backburner, agrees Jon Skelton, associate attorney with Pavese Law Firm in Fort Myers. "They tend not to grasp its actual importance, usually until it's too late," he says.

Business owners who start up firms are seeking short-term profits, but many are seeking to leave a legacy and pass their businesses down to their children, partners or key employees. "That's a big reason why succession planning is really imperative for businesses," Skelton says.

A first step is to pick a target date for retiring or transitioning key duties to someone else. Depending on who you want to pass the business to, there are different legal techniques related to estate taxes, he says.

A succession plan also will identify existing employees or bring in people from the outside to fill roles that will be vacated by yourself and any business partners.

Company leaders need to communicate essential corporate knowledge to employees, so they can step in, if needed.

"It's important to have a plan and

to know how to replace people," Carmichael says. "The failure to groom successors can cause your business to not make it."

Owning life insurance on key members of the firm is another initial step that could pay off in the future. The company gets paid that life insurance, which can be used to purchase the interest of the deceased or disabled shareholder, Skelton says.

In the case of business partners, Skelton says a buy-sell agreement is a cornerstone of a succession plan. Depending on how it is structured, it allows partners or shareholders to purchase your interest in the company and will keep from having the company transferred to a spouse or family member who has no interest in the business.

"You should definitely not be putting it off, being of the thinking that 'I'm young today, what's going to happen?'" Skelton says.

A critical component, says McGahey, was recognizing that his shortcomings were in marketing, while Gora acted as "our face in the community." Rick McCormick, who boasted 30-plus years of experience marketing his own

firm, joined Gora McGahey in late 2009, taking on that and other roles.

"That helped me out with an area that I hadn't developed on my own," McGahey says.

The company considered changing its name after Gora's passing, but decided it has been its trademark and the name serves to honor him.

"Bruce's spirit is still alive and well and in all the hearts and minds of everyone who makes up our team," McGahey says. **gB**



Thinking long term: When Bruce Gora (above, right; right) died in 2009, proper succession planning left his business partner, Dan McGahey, (above, left) in a tenable position.



"WHILE IT WAS PAINFUL AT 35 TO BE PAYING MONEY FOR LIFE INSURANCE AND FOR DISABILITY INSURANCE ... IN HINDSIGHT, THANK GOD."