A Dallas Manufacturing CEO Became a Working Interest Owner 90 Days Post-Exit

A Consideration Stage Case Study Examining Post-Exit Tax Exposure, Concentration Risk, and Direct Energy Participation

This case study presents an illustrative, composite participant profile built from patterns commonly observed among exiting manufacturing operators in Texas. It does not describe an actual Summit Ventures participant, and no dollar figures, deduction amounts, or performance outcomes are implied, projected, or guaranteed. All tax references are general education, not individualized tax advice.

Case Classification & At a Glance Summary

Case Type

Illustrative composite profile, Consideration stage

Industry

Light industrial and precision manufacturing, Dallas–Fort Worth metroplex

Trigger Event

Full sale of an operating manufacturing company to a strategic acquirer, structured in part as an asset sale

Decision Window

The 90 days immediately following close

Participant Type

Founder and CEO, sole shareholder of an S corporation manufacturing business

Federal Tax Exposure

Long-term capital gains plus the Net Investment Income Tax under IRC Section 1411

State Tax Exposure

None. Texas levies no state income tax, so the exposure in this profile is purely federal

Capital Decision Evaluated

Whether to redeploy a portion of exit proceeds into direct working interest ownership in producing oil and gas wells through an entrepreneurial joint venture structure

Participant Profile, Trigger, and Situation

The composite participant built and operated a precision metal fabrication business for nineteen years, growing it from a single shop to a 140-employee supplier serving industrial equipment manufacturers across North Texas. The business was profitable, debt light, and entirely owned by the founder. In the first quarter of the case year, a strategic acquirer closed on the purchase of the company, structured partly as an asset sale, which under current law generally produces a mix of ordinary income and capital gain treatment depending on how the purchase price is allocated across asset classes.

Within days of closing, the participant's advisory team flagged that the resulting federal tax liability would be among the largest single payments of his life. Proceeds were parked in a brokerage sweep account while the participant worked through two parallel questions that most exiting operators face at the same time: how to address the current year's tax exposure, and where to redeploy capital that had spent nearly two decades concentrated in a single operating business.

Challenge and Decision Criteria

Two separate but related pressures defined the 90-day window.

Pressure 1: Concentration Risk

Industry research on business owner wealth consistently finds that 80 to 90 percent of a founder's net worth is commonly tied to a single illiquid asset — the business itself, according to concentration risk research published by wealth advisory firms including Modern Wealth. The Exit Planning Institute has separately found that 70 to 80 percent of most owners' wealth sits inside their company at the time of sale. Once the sale closed, that concentration converted from an operating business into a lump sum of cash exposed to a different set of risks: tax timing, reinvestment discipline, and the temptation to deploy quickly without a framework.

Pressure 2: Tax Timing

Under an asset sale structure, allocation across inventory, equipment, goodwill, and other categories determines how much of the gain is taxed as ordinary income versus capital gain — a distinction that materially changes the effective rate on the same dollar of proceeds. For 2026, the top federal long-term capital gains bracket of 20 percent applies above roughly $545,500 of taxable income for a single filer or roughly $613,700 for a married couple filing jointly, with the 3.8 percent Net Investment Income Tax under IRC Section 1411 stacking on top for most sellers above that threshold. Because Texas imposes no state income tax, the composite participant's blended federal exposure approached the 23.8 percent combined ceiling, without any additional state layer to plan around.

Advisory research on post-liquidity behavior adds a further wrinkle: studies cited by wealth management firms including Wiss identify the twelve months following a liquidity event as the highest risk period for wealth erosion, and separate research referenced by M&A advisory groups has found that a majority of sellers who deploy proceeds within 30 days of close later regret the speed of that decision.

The decision criteria the participant and his advisors ultimately used were: does the option address current year tax exposure in a documented, statutory way; does it move capital outside the manufacturing and industrial sector entirely; does it preserve some operational visibility rather than handing control to a fully passive structure; and does it provide exposure to a hard, inflation-sensitive asset class rather than another paper instrument correlated to the same market cycles the business itself had been exposed to.

Goals

The participant's stated goals, consistent with the priorities exiting operators in this position typically articulate to their advisors, were as follows:

1 Address Current Year Tax Liability

Address a portion of the current year federal tax liability through a legitimate statutory mechanism rather than a one-time, single-use strategy.

2 Diversify Away from Manufacturing

Diversify a meaningful slice of exit proceeds away from the manufacturing sector and into an uncorrelated asset class.

3 Retain Governance Visibility

Retain some degree of governance visibility into how that capital was deployed, rather than accepting a fully hands-off allocation with no line of sight into operations.

4 Build a Tangible, Cash-Flow-Generating Position

Build a long-term position in a tangible, cash-flow-generating asset rather than adding another layer of paper exposure to a portfolio already weighted toward public equities through his 401(k) and brokerage accounts.

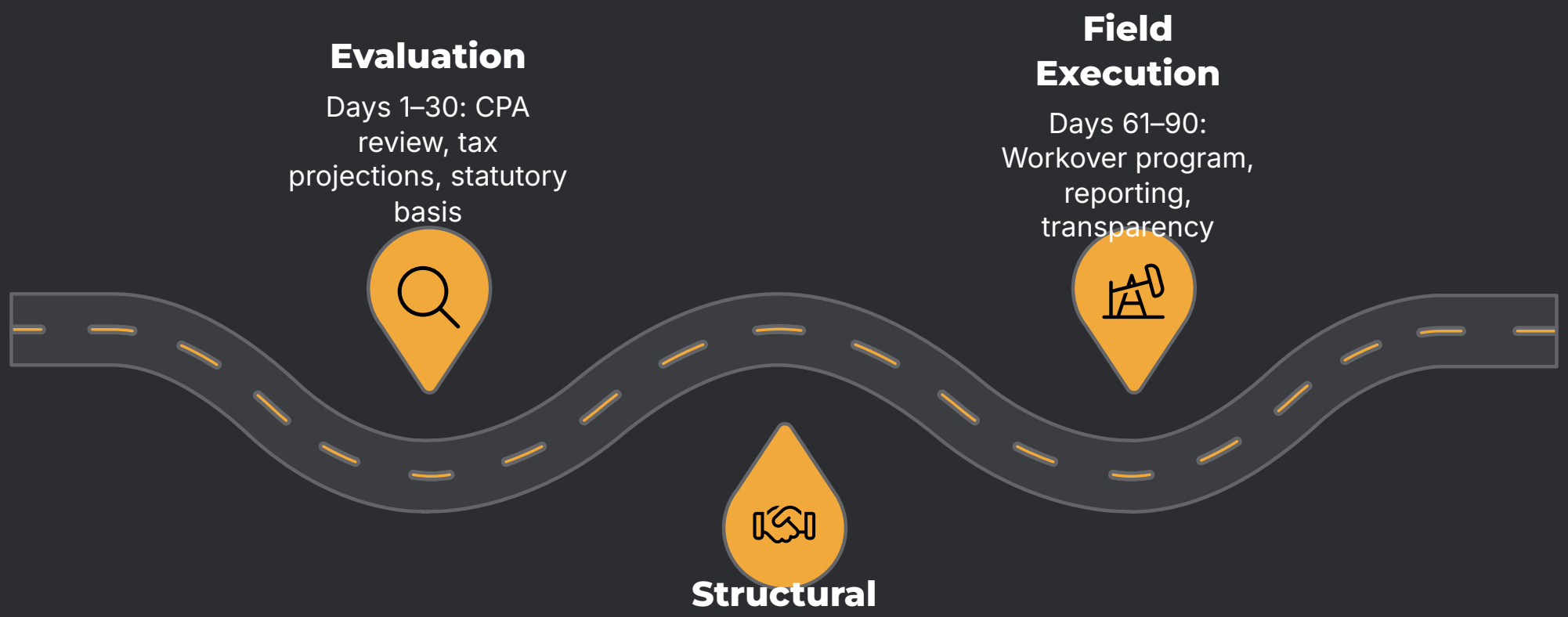
The Solution: Direct Working Interest Ownership

The option the participant evaluated alongside more conventional choices — a diversified securities account, a passive real estate placement, and a straightforward reinvestment into a new venture — was direct working interest ownership in producing oil and gas wells structured as an entrepreneurial joint venture.

The structural distinction that made this option relevant to the tax question is specific and statutory, not promotional. Under IRC Section 263(c) and the operator definition in Treasury Regulation 1.612-4, a party that holds a working or operating interest — either as a fee owner or under a lease or similar contract granting operating rights — may elect to treat intangible drilling costs such as labor, fuel, chemicals, and site preparation as currently deductible rather than capitalized, subject to the specific well program's authorization for expenditure and the participant's own tax position. Equally important is IRC Section 469(c)(3)(A), which excludes a working interest in an oil or gas property from the passive activity rules entirely, provided the taxpayer holds that interest directly or through an entity that does not limit the taxpayer's liability. That single structural requirement — direct or unlimited liability holding — is what separates a working interest from a limited partnership or LLC fund unit, which typically does default to passive treatment and loses this exception.

In practical terms, this meant the participant was not evaluating a fund interest or a security. He was evaluating direct ownership in a working interest, governed by a joint operating agreement, with governance rights, access to well-level reporting, and the statutory ability to treat the activity as active rather than passive for tax purposes, subject in all cases to the at-risk rules under IRC Section 465 and confirmation of his individual facts with his CPA.

Implementation: The 90-Day Timeline



Days 1–30: Evaluation

Days 1 through 30 were spent on evaluation rather than action. The participant's CPA and the Summit Ventures team reviewed the mechanics of the asset sale allocation already completed at closing, confirmed the participant's projected taxable income and filing status for the current year, and walked through the statutory basis for IRC Section 263(c) and 469(c)(3) treatment in plain terms — including what the structure does not do: it does not erase the obligation to file, it does not guarantee a specific deduction percentage, and it does not substitute for the participant's own tax counsel.

Days 31–60: Structural Work

Days 31 through 60 moved into structural work. The participant reviewed the authorization for expenditure on a specific well program, executed the joint operating agreement that establishes his governance rights and operational reporting access as a working interest owner, and made his capital contribution directly into the drilling and redevelopment program rather than into a pooled fund vehicle.

Days 61–90: Field Execution

Days 61 through 90 moved into field execution. Consistent with Summit's redevelopment approach to asset-level operations, the capital was applied in part to a workover program on existing producing wells already generating a documented production baseline, with the objective of improving recovery from known reservoirs rather than relying solely on new, higher-risk drilling. The participant began receiving the operational reporting cycle that comes with direct working interest ownership: well-level production data, authorization for expenditure updates, and the transparency that a joint operating agreement is designed to provide to an active participant rather than a passive capital source.

Illustrative Mechanics Summary

This section describes what changed in the composite participant's position — not a performance result, a rate of return, or a dollar figure. No such figures are claimed, implied, or available to disclose in an illustrative profile, and none should be assumed by a reader evaluating a similar decision.

Decision Factor	Mechanism Applied	Statutory or Structural Basis
Current year federal tax exposure on sale proceeds	Capital contribution directed to a specific well program's intangible and tangible cost components	IRC Section 263(c) and Treasury Regulation 1.612-4
Active versus passive income classification	Direct working interest holding, not a liability-limiting fund or LLC unit	IRC Section 469(c)(3)(A)
Loss and deduction eligibility ceiling	Confirmation of amount at risk in the specific well program	IRC Section 465
Alternative minimum tax exposure on intangible drilling costs	Evaluation of independent producer status and applicable preference item treatment	IRC Section 57(a)(2)
Equipment and tangible cost recovery	Review of applicable depreciation treatment for tangible drilling cost components	IRC Section 168(k) as made permanent under the 2025 budget reconciliation legislation
Ongoing income from production	Review of percentage depletion mechanics applicable to the participant's working interest share	IRC Sections 611 and 613A
Concentration risk reduction	Redeployment of a defined portion of proceeds outside the manufacturing sector into a working interest position	Structural diversification, not a statutory provision
Governance and operational visibility	Execution of a joint operating agreement establishing reporting access and participation rights	Contractual, governed by the specific joint operating agreement terms

What did change: a portion of the current tax year's exposure was addressed through a documented, statutory mechanism tied to the specific well program's authorization for expenditure, rather than a one-time workaround. A portion of exit proceeds moved out of a single industry concentration and into a working interest position in a different asset class entirely, tied to a different set of economic drivers than manufacturing demand or industrial equipment cycles. The participant retained governance rights and operational visibility through the joint operating agreement, rather than handing capital to a structure with no reporting access. None of this is presented as a template outcome; the specific tax treatment, deduction eligibility, and ownership terms for any participant depend entirely on that participant's individual facts, the specific well program involved, and confirmation from qualified tax and legal counsel.

Assumptions, Key Takeaways & Broader Context

> "I had spent nineteen years with almost everything I owned tied up in one building and one customer base. After the sale, I did not want to just move that same concentration into a different wrapper. What mattered to me was understanding the statutory basis for the tax treatment before I moved a dollar, and having a joint operating agreement that actually told me what was happening with the asset month to month, instead of a quarterly statement with no detail behind it."

The above is a composite statement constructed to reflect commonly reported participant sentiment at this stage of the decision process. It is not attributed to a real individual and should not be read as a testimonial or performance claim.

Assumptions

This profile assumes the participant structured the transaction in part as an asset sale, had sufficient taxable income in the current year to make the timing of a deduction relevant, held the working interest directly rather than through a liability-limiting entity, confirmed his amount at risk under IRC Section 465 before making a capital contribution, and engaged his own CPA and legal counsel throughout the 90-day window rather than relying solely on Summit Ventures for tax guidance.

Key Takeaways

Concentration Risk Changes Form, It Doesn't End

Concentration risk does not end at closing — it changes form, from a single operating business to a single lump sum of cash sitting in a sweep account.

The Structural Distinction Is the Determining Factor

The statutory distinction between a direct working interest and a liability-limiting fund interest is not a technicality — it is the determining factor in whether IRC Section 469(c)(3) treatment is available at all.

Governance Rights Distinguish Entrepreneurial from Passive

The tax mechanism itself, properly documented and confirmed with counsel, is only one part of the decision — the governance structure and reporting access that come with direct ownership are what distinguish an entrepreneurial joint venture from a passive capital placement.

Broader Market Context

The American Petroleum Institute reports that the oil and natural gas industry supported 10.6 million American jobs and contributed $2.1 trillion to the economy in 2023, with United States crude production reaching a record 13.5 million barrels per day in December 2024. The Energy Information Administration projects United States marketed natural gas production will set a new record of 122.5 billion cubic feet per day in 2026, surpassing the prior record of 118.5 billion cubic feet per day set in 2025. For an exiting operator evaluating where to place a portion of post-sale capital, that is a market context worth weighing alongside the statutory mechanics — not a substitute for them.

Questions for Evaluation & Next Steps

Readers considering a similar 90-day post-exit window should work through the following with their own advisors:

Sale Structure & Gain Character

How was the sale transaction structured — as an asset sale or a stock sale — and what does that mean for the character of the resulting gain?

Projected Taxable Income

What is the participant's projected taxable income for the year of sale, and does that change the relevance of a current-year deduction?

Direct vs. Entity Holding

Is the working interest being held directly, or through an entity that limits liability, and has that distinction been confirmed against IRC Section 469(c)(3)(A)?

Amount at Risk Documentation

Has the amount at risk under IRC Section 465 been documented against the specific authorization for expenditure?

Governance & Reporting Access

What governance rights and reporting access does the joint operating agreement actually provide, and how frequently is well-level data shared?

CPA Review Before Capital Moves

Has a qualified CPA reviewed the specific well program's AFE before any capital contribution is made, rather than after?

Evaluating a decision of this kind during a 90-day window is manageable when it is broken into discrete steps: confirm the sale structure and its tax character, document taxable income and timing, confirm the entity and holding structure preserves the intended tax treatment, document the amount at risk, and secure governance and reporting rights before any capital moves. Summit Ventures operates as an entrepreneurial joint venture platform built around exactly that sequence — pairing working interest ownership in producing and redevelopment well programs with direct governance rights, operational transparency, and the statutory framework outlined above — for business participants who want to remain informed owners of the asset rather than passive holders of a financial instrument. A conversation with a qualified CPA or tax attorney remains the appropriate next step before any participant moves forward with a comparable structure.

Ready to Explore Direct Working Interest Ownership?

Summit Ventures pairs working interest ownership in producing and redevelopment well programs with direct governance rights, operational transparency, and a documented statutory framework — for exiting operators who want to remain informed owners of the asset.

Start a Conversation with Summit Ventures

Sources: [1] Modern Wealth, concentration risk research. [2] Harford Financial Group, citing the Exit Planning Institute. [3] Wiss, wealth management research. [4] Wealth Enhancement Group, asset sale vs. stock sale tax character. [5] CT Acquisitions 2026 guide, citing Cerulli Associates. [6] ustax.tools, 2026 federal LTCG brackets per IRS Rev. Proc. 2025-32. [7] WalletGrower, state-by-state capital gains comparison. [8–16] Cornell LII and U.S. Code citations for IRC Sections 263(c), 469(c)(3)(A), 465, 57(a)(2), 611, 613A, 168(k), 1411; API Industry Explained 2023; U.S. EIA 2026 natural gas production outlook.