Buy-Sell Agreements Explained

Many owners of privately held companies do not have buy-sell agreements. A well-drawn agreement spells out how to compute the transfer price, how to fund the payment of the transaction, and any limitations on to whom the ownership interest may be transferred. Such a document would also describe what would happen when one party wishes to retire, be bought out, or passes away. In the absence of a buy-sell agreement, state law will govern if the parties cannot come to an agreement.

Privately held company owners who do, in fact, have a buy-sell agreement have long ago forgotten what the agreement says. If they have an agreement, and know what it provides for, they may not realize that the agreement made many years ago, when the company and the owners were younger, is no longer adequate. Their personal circumstances have evolved, the company's fortunes are different, and health or financial issues may have changed, making the agreement obsolete. Just as one would review one's will periodically, so should the buy-sell agreement be reviewed periodically to adapt to various changes

One of the key components of a well-drafted buy-sell agreement is to provide for how the value of the company is to be determined. This is not a simple matter. There are myriad considerations to address, and no two companies, of their owners, are alike.

To learn more about Gettry Marcus' Business Valuation and Litigation Services Group, and how we might be able to help you better understand the valuation benefits with regard to a properly drafted buy-sell agreement, contact Mark S. Warshavsky or Russell T. Glazer.