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## Buy-Sell Agreements: A Must for Owners

When you start a company, creating a buy-sell agreement is rarely at the top of the list of things to do. But that's precisely the time to consider the future. For example, what do you want to happen if an owner wants to leave, is incapacitated, becomes terminally ill, dies, or divorces?

Buy-sell agreements are legal documents that detail how and when an owner can sell his or her interest in the business. It outlines how the business interest will be valued and to whom the interest can be transferred or sold.

Having a buy-sell agreement in place means that nothing will be left to chance in the case of an owner's departure, planned or unplanned. The goal of the agreement is to ensure an orderly transition of ownership and voting rights so that the remaining owners aren't left with a departed owner's ex-spouse, children, or estate as a business partner.

The agreement typically covers the following:

- **Triggering events:** The document defines various events that trigger the agreement. For example, death, retirement, bankruptcy, substance abuse, fraud, or divorce might cause the agreement to go into effect.
- **Buyout method:** Most buy-sell agreements include a cross-purchase agreement or a redemption agreement. A cross-purchase agreement, typically funded by a life insurance policy, allows remaining partners to buy the departing owner's interests. A redemption agreement allows the company itself to buy out the owner.
- **Non-compete clause:** Often, departing owners are prohibited from competing with the company via a non-compete agreement.
- **Purchase price:** The buy-sell agreement should outline the process by which the interest will be valued, detailing the valuation date, standard of value, and even a valuation formula to be used.

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If you don't have a buy-sell agreement in place, it's never too late to create one. It's also important to keep it up to date. Give us a call to discuss how Mueller Prost can help you prepare for the future.



**[Michael J. Devereux II, CPA, CMP](#)**

Partner | Director of Manufacturing, Distribution, and Plastics Industry Services

[mdevereux@muellerprost.com](mailto:mdevereux@muellerprost.com)

314.862.2070

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