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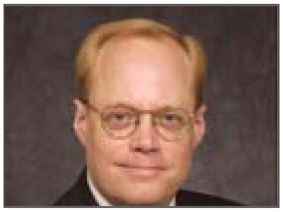

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In Business? Get A Buy-Sell Agreement!

If you own all or part of a business—any business—you should know about buy-sell agreements. Unless you plan to be lucky forever, you'd better ***have*** one. Without it, a closely held or family business faces a world of financial and tax problems on an owner's death, incapacitation, divorce, bankruptcy, sale or retirement.

Cost Benefit? The cost of a buy-sell is tiny compared to its benefits. A buy-sell agreement can ward off infighting by family members, co-owners and spouses, keep the business afloat so its goodwill and customer base remain intact, and avoid liquidity problems that often arise on these major events.

Any Type of Business. A buy-sell agreement makes sense for ***any*** business entity, including corporations, partnerships, LLCs and even proprietorships. How much you need a buy-sell depends on how many owners there are and who else might be waiting in the wings with a financial stake in the business.

> ***Example:*** You and your partner Joe run a hotdog stand as 50/50 partners. You might have a written agreement or a mere handshake. Joe dies. Do you still have a business? Is Joe's wife or child your new partner? Do you have the right or the obligation to buy them out? If so, for how much and on what terms? Can you strike out on your own with your own hotdog stand, or are you stuck with the baggage of the old one? What if you die instead of Joe?

As this example shows, the most basic business can benefit from a buy-sell, even if it's the ***only*** written document the business has. Disputes and confusion can result without one even in a small business, and the stakes go up with larger and more complex businesses. You can have a buy-sell agreement with two owners or with many. Suppose you have 10 owners in a family company and someone tries to transfer their shares to a competitor? Such events are easy to prevent with a buy-sell but very expensive otherwise.

Cross Purchase vs. Redemption. One type of agreement is a cross-purchase: If you or Joe dies, becomes disabled, goes bankrupt, etc., the other can buy his share. With a redemption style agreement, the business ***itself*** would make the purchase so the owners don't individually go out of pocket.

With either type of buy-sell, there's lots of flexibility. The price might be fixed, determined by appraisal or formula. The price might be paid in cash or installments over time. There can be different terms for different events, one price and terms for retirement, one for disability, one for death.

Insurance. Insurance features prominently in many buy-sell agreements. You don't have to use insurance, but it can ensure there's cash available when the time comes. For example, whether you or Joe dies first, a life insurance policy on each of you can fund the buyout so your hot dog stand stays afloat and so spouse/heirs are bought out as agreed.

Good for the Goose and Gander. You may find it difficult to face these issues and to make some of the myriad decisions. But just about ***any*** buy-sell agreement is better than none. Besides, one of the beauties of the process is that buy-sell agreements are reciprocal. No one knows for sure if you or Joe will be the first to go by death, disability, retirement, etc. That reciprocal nature makes negotiating and agreeing on these issues easier than you might think.

Get Some Help. You'll need a business or tax lawyer experienced in buy-sell agreements to help you choose the right type and draft it. But these agreements can be surprisingly simple and may cost as little as a few thousand dollars. Whatever you spend on a buy-sell, it will be a drop in the bucket compared to what it can save you.

For basic reading on buy-sell agreements, see:

Making the Breakup Much Easier

The Eight D's of Buy-Sell Agreements

Buy/Sell Agreement Checklist

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