

# Buy-Sell Agreements for a Small Business

Firstly, I am not an attorney. I have been in the financial arena for many years and have seen the good and bad real life situations that happen and know they could have been avoided or made better. Please consult your own attorney to see if a Buy/Sell Agreement should be put into place for your company.

So here's the scoop - let's assume you own a company with your business partner, David. You've formed it legally, have by-laws, file taxes regularly, and everything is going great. Then, suddenly, David goes bankrupt and gets divorced. Worst yet, what happens if he dies during your partnership?

What happens to his part of the business? Does it go to his spouse in their settlement? Will you be in partnership with his spouse and kids if he passes away? What if they are drug addicts or vindictive or live out of state? Do you own the whole thing now? Is it worth half as much? How do you protect yourself and your business from unforeseen events like these?

**The best way is to create a Buy-Sell Agreement.** Think of a Buy-Sell Agreement as your business's will or pre-nup. It outlines how the business will deal with unforeseen circumstances, like the death, retirement, disability, or bankruptcy of an owner. Basically, it governs what happens if an owner is forced to leave the business or chooses to do so of his or her own free will. When you create a Buy-Sell Agreement, you're choosing how the co-owners of your company can sell their share of the business, including to whom AND for what price. In many partnerships, there is a 'working' partners and a 'silent' partner. What happens if the 'working' partner has an accident is now disabled and cannot work any longer? Do they have talent that is hard to replace? Disability insurance would give the business needed capital to continue running the business while looking for a suitable replacement. I personally believe EVERY business should have one in place.

Each Buy/Sell is tailored to your specific needs. More importantly, Buy-Sell Agreements prevent your co-owners from transferring their share of the company to parties you don't want to be in partnership with. If your co-owner gets divorced, for example, the owner's spouse could get control of that owner's share unless a Buy-Sell Agreement is in place.

Even outside life's unfortunate tragedies, a Buy-Sell Agreement is valuable. Say a co-owner is simply burned out on the business or the business is doing so well and they want to cash out. Your agreement can spell out who the share can be sold to, or, as is quite common, include a provision allowing remaining owners to repurchase the ownership share.

Buy/Sells should be created as close to the inception of your business as possible and reviewed every few years or when your business grows to another level and the valuation has grown.

Which businesses should obtain a Buy-Sell Agreement? They are appropriate for every business entity, from corps to partnerships and even sole proprietorships. Every business needs an 'exit strategy' and the Buy/Sell Agreement outlines that strategy. If you are a sole proprietor, instead of leaving your business to your kids, do you have a valuable employee that will take over the business? Will that person then pay your heirs a percentage of the business profits for a number of years or will they pay one lump sum? How will it transfer and how easy will that process be? It all depends on if you have a properly structured document in place to instruct your loved ones and your legal Team.

This is not something you want to procrastinate nor do you want to do it the least expensive way. Consult with attorneys that have been there, done that. Begin working on it TODAY! Make it a WIN/WIN/WIN for everyone!

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#### **About Debbie:**

*I am blessed to know my purpose in life and to live it daily. Passionate about putting everyone I meet in a better financial and health position, my clients reap the benefit of many years as a former financial advisor and it is a natural fit that I assist those looking for solutions during the 'experienced' part of their lives. I believe education is paramount and we work with a Team of professionals as we guide clients to making smart choices with their money to help them live a long life filled with joy and peace.*