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Failure to Establish Buy-Sell Agreements Fatal Error for Business Partners

by Seikaly & Stewart on March 2, 2012

All business partnerships start with the best intentions, but many do not end that way. This is why buy-sell agreements are so important, and every company with multiple partners or shareholders should have one the moment the business is formed.

A buy-sell agreement is a contract between partners in a business that dictates who can buy a departing partner’s share of the business and establishes a fair price for the partner's stake. If a co-owner wants out of the business, wants to retire, wants to sell his shares to someone else, goes through a divorce, or dies; buy-sell agreements act as a “premarital” arrangement to protect everyone's interests, setting the price and terms for buyout options.

You, and two partners opened your company in Farmington Hills 20 years ago, but the business never established a buy-sell agreement. The company is now worth millions, but one of your partners has died of a sudden heart attack, and his young wife of two years now wants an active management role in business decisions. At the same time, the remaining partner decides to retire and turn his shares of the company over to his son who never finished high school. Only a buy-sell agreement 20 years earlier would have prevented what may now be years of costly, bitter litigation. But all is not lost. It may be possible to have a mutually trusted accountant, like the firm's accountant, arbitrate a solution.

Any Michigan business with partners (or shareholders in a closely-held corporation) and no buy-sell agreement, or those entering into such an arrangement for the first time. needs to consult a lawyer experienced in business matters so that problems can be avoided before they become insurmountable.

In the Farmington Hills area or within Michigan call Seikaly & Stewart, P.C. at (248) 785-0102, or email them at info@seikalystewart.com.

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