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Preparing for the Unexpected™

What If I Want a No-Sell Buy-Sell Agreement?

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There are business owners who are in business together and have businesses that they want their family to continue to own even if they should die. We see this with businesses that are expected to grow significantly. Each owner wants their family to share in the future growth, even if they should die prematurely.

A no-sell buy/sell agreement accomplishes several things. The management and the voting stock all remain with the surviving owner. The deceased's ownership interest remains with his family. We take each owner's interest in the business and divide into voting and nonvoting stock. Upon the death of one of the owners the deceased's voting interest is bought by the surviving owner per the terms of the buy/agreement. The nonvoting interest of the deceased owner remains with his family. This way if the business does grow significantly the family of the deceased will share in the growth.

The control of the business remains in the hands of the surviving owner. The family of the deceased owner has non-voting interest in the business only and cannot expect to see any money out of the deal unless and until the business is sold.

This is an excellent arrangement when the owners are family members such as siblings. It is an appropriate option when the business is in the growth stage and is involved in technology or an innovation where there will be significant growth. We have also done this many times on real estate transactions where the ultimate value of the real estate will be worth many times what it is today.

The business owner should consult with their accountant and attorney before entering into a no-sell buy/sell agreement. When the business is recapitalized into voting and nonvoting shares, each owner receives one voting share and 99 nonvoting shares. Each business owner should purchase life insurance on their own lives equal to their business value. This policy will provide funds for their family upon their death, guaranteeing their financial security until the business is sold. Under the buy/sell agreement, the business owners agree to buy each other's voting interest for a nominal sum. This can be funded with very inexpensive term insurance. There is a downside to this arrangement. The surviving owner is going to have to continue to run the business, grow the business and assume all of the liability, knowing that they will only realize half of the value in the case of a sale. The family of the deceased owner will be receiving the other half. We do not have a crystal ball and have no way of predicting the future.

Several years ago, I designed one of these no-sell buy/sell arrangements for three brothers. The youngest brother was 54 and the two older brothers were 60 and 63. The 54-

About Our Company

Blueprints For Tomorrow is a nationally recognized company that specializes in contingency, succession, and transition planning with a focus on growing businesses and improving cash flow.

We work directly with closely held businesses to create customized strategies and solutions that ensure the future of their organizations. As a third-generation company with over 40 years in the industry, we have the pleasure of serving thousands of clients and their families across the country.

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year-old was sure that he would be the last to die and lamented how he would have to work harder and longer than his brothers, who he was sure would be predecease him, only to have to share the proceeds of the sale of the business with his brothers' families. He died 18 months later from cancer. The older brothers went on to work another 15 years. The business was worth $2 million at the time of the death of the youngest brother. When the surviving brothers sold the business 15 years later, they sold it for $15 million. The deceased brother's family received $5 million.