

Does Your Buy-Sell Agreement Actually Work?

Most business owners executed their buy-sell agreement, filed it away, and never reopened it. The assumption that an agreement is sound simply because it is legally valid is dangerous. The real question is not whether your document is legal—it is whether it is **financially viable, fully funded, and executable without destroying cash flow** on the day an unexpected trigger occurs.

FIVE CRITICAL PRESSURE POINTS

Where Traditional Agreements Break Down

**1 Unfunded Triggers**

Agreements frequently insure for premature death, but overlook permanent disability, divorce, insolvency, or voluntary departure—leaving surviving partners with unfunded cash obligations.

**2 Outdated Valuation**

Fixed dollar amounts, stale Certificates of Value, or formulaic book-value metrics rarely reflect current enterprise value, guaranteeing bitter friction between survivors and the departing family.

**3 Commercial Liquidity Strain**

Relying on working capital or commercial debt to fund a mandatory buyout drains critical liquidity, violates bank covenants, and impairs core business operations when stability matters most.

**4 Structural Tax Traps**

Redemption structures may forfeit a step-up in tax basis for surviving owners, trigger corporate AMT liabilities, or result in adverse dividend treatment under IRC regulations.

**5 Unrealistic Promissory Note Terms**

When funding gaps require owner notes, unrealistic amortization schedules, below-market interest rates, or unsecured collateral create fatal risk for both the remaining business and the exiting owner.

BUY-SELL VIABILITY AUDIT

Diagnostic Checklist for Co-Owners

| Assessment Question                                                   | Strategic Impact                                                                           | In Place                          | Needs Review                          |
|-----------------------------------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------------------|---------------------------------------|
| Has your agreement been reviewed within the past 24–36 months?        | Ensures terms match today's company size, capital structure, and ownership group.          | <input type="checkbox"/> In Place | <input type="checkbox"/> Needs Review |
| Do all co-owners currently agree on how the business is valued?       | Prevents protracted appraisal disputes and litigation during an emotional transition.      | <input type="checkbox"/> In Place | <input type="checkbox"/> Needs Review |
| Is there dedicated, liquid funding for both death and disability?     | Eliminates forced fire-sales or reliance on emergency bank credit lines.                   | <input type="checkbox"/> In Place | <input type="checkbox"/> Needs Review |
| Have policy ownership and beneficiary designations been audited?      | Guarantees proceeds flow tax-efficiently and directly satisfy the legal buyout obligation. | <input type="checkbox"/> In Place | <input type="checkbox"/> Needs Review |
| Would a multi-year buyout note fit comfortably within free cash flow? | Protects operating margins, vendor terms, and banking relationships post-exit.             | <input type="checkbox"/> In Place | <input type="checkbox"/> Needs Review |

RECOMMENDED ACTION PLAN

Four-Phase Alignment

**STEP 01**  
**Locate Documents**

Gather the executed buy-sell agreement, bylaws/operating agreement, and recent valuation certificates.

**STEP 02**  
**Audit Policies**

Verify policy ownership, beneficiary designations, and death/disability benefit amounts against current equity.

**STEP 03**  
**Model Cash Flow**

Stress-test the debt service of installment notes against historical EBITDA and operational headroom.

**STEP 04**  
**Align Advisory**

Coordinate legal counsel, corporate CPA, and Providence Partners to reconcile language with capital reality.