

Excerpt from:

# Buy-Sell Agreements

## How to Avoid the Valuation Pitfalls



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# Buy-Sell Agreements: How to Avoid the Valuation Pitfalls

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# Introduction

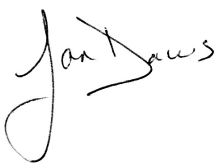
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Buy-sell agreements are an integral element in exit planning for business owners and have important implications for the valuation community. Valuation professionals play a critical role in assisting clients with administering or litigating ownership agreements, and they must be prepared to show how buy-sell agreements interact with shareholder agreements, operating agreements, partnership agreements, and bylaws.

Much of this special report is drawn from a series of articles in *Business Valuation Update* by Chris Mitchell and Brian Burns, which were in turn inspired by a recent webinar they gave on the topic of buy-sell agreements. These three chapters by two experienced business appraisers provide expert advice on the valuation implications of the agreements, including the factors that influence value and how to select the best method to determine the purchase price. Rounding out the report, Chris Mercer addresses the needs of retiring baby boomers in a section from his new book advising on valuation mechanisms to be put in place *before* they are needed.

More specifically, in this report, readers will find:

- An overview of the documents that govern the operation of businesses and an explanation of the importance of buy-sell agreements in valuation services (Chapter 1: “Understanding the Importance of Buy-Sell Agreements to BV Services”);
- A discussion of the common ambiguities and valuation pitfalls that can lead to complications surrounding buy-sell agreements (Chapter 2: “Alternative Methods of Purchase Price Determination in Buy-Sell Agreements”);
- A new survey of attorneys examining how they draft provisions for determining purchase price (Chapter 3: “Avoiding Complications and Disparate Opinions of Value in Buy-Sell Agreements”);
- An explanation of how to improve the valuation mechanism of new and existing buy-sell agreements, with particular emphasis on the concerns of baby boomer business owners, as set forth by Z. Christopher Mercer (Mercer Capital) in his book *Buy-Sell Agreements for Baby Boomer Business Owners* (Chapter 4: “The Best Valuation Mechanism for Buy-Sell Agreements”);
- Analysis from 22 court cases in which one aspect of the dispute involved a buy-sell agreement; and
- A list of additional resources on buy-sell agreements.



Jan Davis  
Senior Contributor  
Business Valuation Resources





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