



What to Know Before Buying Out an Agency Partner

by Curt Van Auken
Security Financial Bank

The time has come to go separate ways from your insurance agency partner. Dissolution of a partnership can become complicated and hostile but having an official buy-sell agreement in place will help reduce this stress. It is advisable for business partnerships to establish buyout plans from the start of their relationship. However, if you're already a partner in an agency, the next best time is now.

The future buyout should be documented with a written buy-sell agreement at the start of the partnership. To start this process, you will want to find a few experts in their fields. These professionals will tailor your agreement for the best solution for you and your partner. Contact your attorney, accountant, banker, and valuation specialist before you start the buy/sell agreement with your agency partner. If you don't have a preferred specialist in one of these fields, your banker can help you find one.

- **Attorney:** An attorney will help you draw up the buy-sell agreement document and inform you of the state laws regarding business buyouts.
- **Accountant:** An accountant will help you prepare the financial statements needed to help determine the value of the seller's interest. They can also aid in tax considerations to structure and minimize taxes after the buy-sell.
- **Banker:** A banker will help provide the financing structure for the buy-sell. They can help manage your funds throughout the process. A banker can also provide options for financing the buyout with an acquisition loan.

- **Valuation Specialist:** The valuation specialist will create a fair market value statement for the agreement and make sure the buyout is a good long-term investment for both parties.

The terms of a buy-sell agreement may include the following:

- **Definitions** -- Define the terms used in the agreement.
- **Issuance of shares** – Indicate what must happen before shares are transferred.
- **Restrictions on transfers** – Be sure to state that any attempt to transfer shares not in accordance with the agreement will be void.
- **Options to purchase upon the occurrence of triggering event** – You will want to list and define any triggering events that may prompt a transfer of shares.
- **Mandatory purchases** – Provide instances where shareholders have an option or obligation to purchase shares.
- **Calls, puts, and other purchase rights** – Include other options and rights to purchase shares.
- **Purchase price** – Indicate the value of shares given different circumstances.
- **Closing and terms of payments for shares** – Indicate when the closing will occur and how payment will be handled.
- **Voting and governance** – Define voting rights and resolution.
- **Non-compete and confidentiality** – Include the terms of the non-compete agreement and confidentiality agreement.
- **Marital property interest of a shareholder's spouse** – Define the rights of a spouse in shares and his/her options to purchase and sell.
- **S Corporation status** – Indicate the terms if a corporation has elected to be taxed under subchapter S of I.R.C. Treasury Regulations.
- **Remedies and Arbitration** – List the results if there is a failure to agree to obligations presented.
- **Miscellaneous** – This may include termination and amendment of the agreement.

Creating a buy-sell agreement before the buyout occurs will offer a mutually beneficial solution for both sides. This will make for a smooth transition when a buyout occurs and lessen the need for further mediation.



ABOUT THE AUTHOR: Curt Van Auken is a relationship manager for Security Financial Bank (SFB), a financial institution that specializes in lending to insurance agencies throughout the Midwest. SFB has helped numerous insurance agents with their banking needs, including acquisitions, partner buyouts, building expansions, and refinancing projects. For more information, contact Curt at cvanauken@sfbank.com, call 715.930.7021 or visit www.sfbank.com.