



Back Doors the End of the Business Relationship

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Back Doors to End a Business Relationship

- ✓ Owners of companies consider the relationship between the partners/members of the company to be a special relationship.
- ✓ For this reason entity documents often include restrictions on transferability
- ✓ However, most business relationships will, at some point in time, come to an end requiring some form of transfer

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This may arise in the context of :

The exercise of a right to purchase right in the form of a RFR or push pull agreement, or

A triggering event:

- (1) death of a member,
- (2) disability of a member,
- (3) default by a member,
- (4) divorce of a member and their spouse,
- (5) discharge (termination) of an owner as an employee, or
- (6) disengagement (retirement) of a member

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In anticipation of these events, it is beneficial to consider in advance how the parties might separate their interests since the process of separating the interests may be clouded by disagreement and/or hostile emotions.

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WARNING !!!! As you review the outline please keep in mind the examples of language provided are only for the purpose of illustration. Partnerships and Company Agreements are, by their nature agreements which afford a great deal of flexibility in drafting and operation.

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In certain circumstances the triggering event may simply be that the parties no longer wish to be in business together.

While we may not know why or under what circumstances it will happen, there is a high likelihood that it will, and business owners are wise to plan for it in advance.

The formation documents for a new company should provide a controlled method of separation of a member as well as a mechanism for the market to set the price for the disposition of the ownership interest of the departing partner/member as opposed to a third-party valuation.

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