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Exit Planning For Business Owners

Multiple Owner Agreements

The most overlooked yet vital agreement between business partners is the Buy/Sell or Partner agreement. When we talk of partners we include all owners whether they are partners or shareholders. In our 30 plus years of working with business owners the agreement between partners we've seen most often is a simple statement wherein the partners agree that should one die or decide to leave the business the remaining partners will buy his interest. This may work at the beginning of the relationship when everyone is getting along and there is little at stake, but not down the road when the business has value and feelings have changed.

Subjects that should be addressed in detail are:

- ***Duties of each owner.*** The written word tends to keep everyone on an even keel.
- ***Requirement that departing owner's interest is to be sold to remaining partners or to the company.*** Without this requirement the remaining partners can end up with a hostile shareholder.

- ***How that acquisition is to be funded and when payment is due.*** As was mentioned in the last issue of this newsletter, sufficient cash flow from the business or insurance proceeds will be needed to buy out the partner who is leaving.
- ***How the business is to be valued.*** Here the parties agree to accept the value established an independent third party experienced in business appraisals and named in the agreement.
- ***Drag along provision.*** This sounds a bit crude yet it's a simple way to describe a solution to a common problem. Without a clause in the partnership agreement that requires all members to abide by the will of the majority one partner can hold the others hostage.
- ***Triggers.***