

I DON'T THINK WE ARE GOING TO REMAIN FRIENDS

What Happens When Owners of Closely Held Companies are Deadlocked or in Dispute with Each Other or Former Employees

By: [Neal H. Bookspan](#)

You and a friend, family member, or even a spouse, decided to go into business together. At first, things were great because of the possibilities and the excitement that new challenges bring. You may have formed a corporation, a limited liability company, a partnership or even operated as a sole proprietorship. If there are only two of you, you might have owned the company equally, which required both of you to agree on any important company issues.

As with all things, the nature of business and relationships change over time. They may change for the better. However, the changes may result in people growing apart or in different directions with different goals. One business partner may even be committing bad acts such as taking money or business opportunities from the company. When this occurs, whether it is between friends, family members, spouses or a former employee, it can easily damage or destroy the company you have worked to create and build. You might even need to continue to work, side by side, with this person. Couple the potential financial loss of your company with the emotional toll and stress such a situation can cause and you are likely overwhelmed.

When these difficult and sometimes untenable circumstances arise, it is important to know that there are options. In a perfect world, many of these issues could be resolved through agreements that were put in place by the owners of a company either at the time of the company's formation or at any time before a dispute arises. Various types of agreements can create a roadmap to determine how to proceed to resolve the most common disputes - operational issues, changes in ownership, compensation, or even the ownership structure of the company.

You can also prepare agreements such as non-compete or restrictive covenants to prevent potential damage by current and former employees. Even if you do not have these types of agreements in place currently, these are steps which can be taken at any time. These will provide a plan to deal with future or pending disputes and challenges and are good faith action steps to manage your risks. They may also help you avoid emotionally charged challenges with friends and family members as well as operate your business in a more efficient manner.

Many people do not recognize these potential risks at the outset of a business venture. No matter how much money is being invested into the new venture, it is ultimately being built on someone's hopes and dreams. Even though the issues contemplated herein can arise at the outset of a business venture or relationship, the more likely scenario is that disputes arise in the future when the business is operational, viable and successful or the business is failing.

These are all good reasons to consult with an attorney when starting a company or new business venture to put systems and controls in place to help you manage potential risks should any arise down the road. It may well be one of the most important uses of your company's capital, whether at startup or later, and help you to avoid incurring future costs. It is almost a guarantee that you will have negative financial impacts if these risks have not been managed and disputes arise between partners or former employees in the future.



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