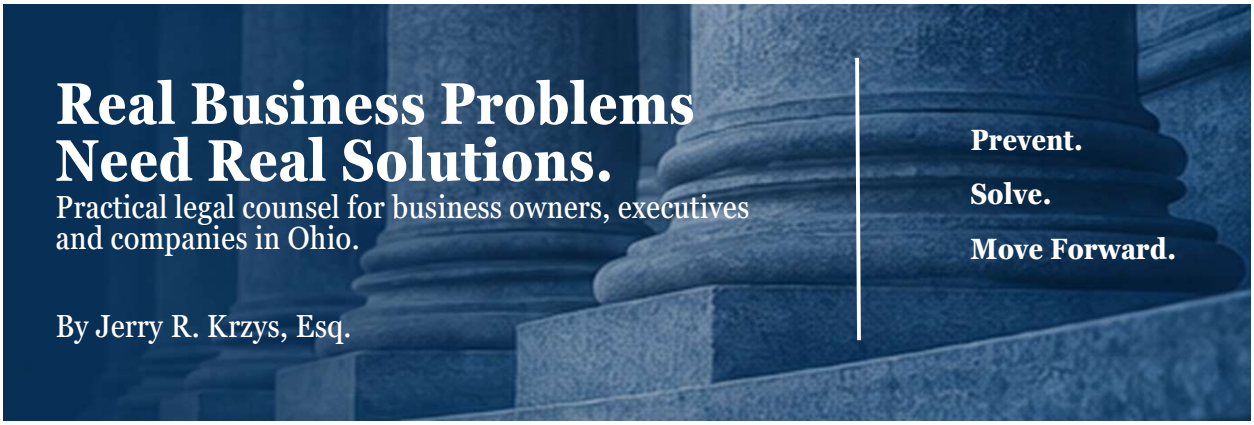
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When Business Owners Stop Agreeing: What Ohio Closely Held Companies Should Do Before the Dispute Becomes a Lawsuit

Two people can build a successful company together for twenty years without ever seriously asking what happens if they stop trusting each other. For years, the arrangement may work because the owners know each other, divide responsibilities informally, and solve disagreements over lunch. One handles sales. The other runs operations. Compensation seems fair enough. Distributions happen when cash permits. Important decisions are made by conversation rather than formal vote.

Then something changes. One owner wants to retire. One believes the other is no longer working as hard. A spouse or child enters the business. Compensation becomes contentious. One owner takes money the other did not approve. A major capital expenditure divides them. One wants to sell; the other wants to expand. Or nothing dramatic happens at all. They simply stop believing that the other owner is acting fairly.

At that point, the legal problem is rarely just the disagreement that triggered the fight. The deeper problem is that the business has been operating for years on trust, custom, and assumptions that nobody had to test while the relationship was good.

A closely held business can remain profitable while its owners are becoming incapable of running it together. The first objective should usually be to keep the ownership dispute from destroying the value they are fighting over.

1. Start With the Governing Documents, Not the Owners' Memories

When owners disagree, each usually has a clear memory of the deal. Unfortunately, the company's legal structure may say something different. For an Ohio limited liability company, the operating agreement is the starting point. Ohio law expressly provides that an operating agreement governs relations among the members as members and between the members and the company; where the operating agreement does not address a matter, Chapter 1706 supplies the default rules. See Ohio Rev. Code § 1706.08(A).

For a corporation, the analysis may require the articles, regulations, bylaws, shareholder agreements, employment agreements, buy-sell agreements, voting agreements, and board and shareholder minutes. Ohio also permits qualifying close corporation agreements to regulate a wide range of internal matters, including management, voting requirements, employment, distributions, deadlock procedures, and transfer restrictions. See Ohio Rev. Code § 1701.591.

The documents may answer questions the owners have been arguing about for weeks: Who actually has authority? What requires unanimous approval? Can one owner bind the company? Who determines compensation? What happens on deadlock? Is there a buyout right? Is there a valuation formula? What happens if an owner stops working?

Before anyone threatens litigation, fires anyone, changes bank access, or announces a buyout price, the company and the owners need to know what their documents actually provide.

2. A 50/50 Company Is Not Automatically a 50/50 Decision on Everything

Equal ownership creates an intuitive assumption that every decision requires both owners. That is not necessarily how the company is legally structured.

For an Ohio limited liability company, the default rule places direction and oversight with the members. Subject to the operating agreement and statutory exceptions, matters in the ordinary course may be decided by a majority of the members, while specified actions require all members' consent. See Ohio Rev. Code § 1706.30.

In a two-member LLC, that default structure can create an obvious practical problem when the members divide one-to-one. But the operating agreement may allocate authority differently, designate managers, reserve particular decisions, or establish a deadlock mechanism.

For a corporation, management authority ordinarily rests with or under the direction of the board except where law or the governing documents require shareholder action. See Ohio Rev. Code § 1701.59(A).

The point is not that one structure is better. The point is that ownership percentage, management authority, officer authority, employment status, and signing authority are different concepts. A dispute becomes more dangerous when the owners treat them as interchangeable.

3. Do Not Confuse Ownership With Employment

Many closely held companies have owner-employees. The same person may be a shareholder or member, director or manager, officer, guarantor, and employee. When the relationship breaks down, those roles need to be separated.

An owner may have an economic interest in the company without having an unlimited right to remain employed by it. Conversely, terminating an owner-employee can have consequences beyond an ordinary employment decision, particularly where compensation and employment have historically been part of the economic benefit of ownership.

Ohio corporation law generally permits directors to remove an officer, with or without cause, subject to the corporation's governing documents and without prejudice to contract rights. See Ohio Rev. Code § 1701.64(B)(2).

But closely held corporations add another layer. In *Crosby v. Beam*, the Ohio Supreme Court recognized a heightened fiduciary duty in the close-corporation setting when controlling shareholders use their control to obtain an advantage at the expense of minority shareholders without an equal opportunity to benefit, absent a legitimate business purpose. See *Crosby v. Beam*, 47 Ohio St.3d 105, 108-110, 548 N.E.2d 217 (1989).

Later Ohio appellate decisions have applied that principle in disputes involving employment and other benefits of participation in a close corporation. The result is not a rule that an owner-employee can never be terminated. It is a warning that an ownership dispute should not be handled as though the ownership relationship disappears merely because one side characterizes the other as an employee.

Before removing an owner from payroll, management, or access to the business, identify which legal role is being changed, who has authority to make that change, what agreements apply, and what economic consequences follow.

4. Compensation and Distributions Are Different Levers

Owner disputes frequently become money disputes, but the money can move through the company in different ways. Salary compensates employment. Bonuses may compensate performance. Distributions reflect ownership economics. Expense reimbursement repays company expenses. Loans between an owner and the company create debtor-creditor issues. Rent paid to an owner-controlled real-estate entity is a related-party transaction.

When relations are good, owners may blur those categories. When relations deteriorate, the distinctions matter. Suppose one owner controls payroll and doubles his salary while distributions stop. Or the company pays substantial management fees to an affiliate owned by one side. Or one owner begins charging personal expenses to the company because “we have always taken things out that way.” Those decisions can affect taxes, fiduciary-duty claims, valuation, cash flow, and settlement leverage.

The safest course during a dispute is usually not to invent a new economic arrangement unilaterally. Preserve ordinary operations where possible, document unusual transactions, and obtain the approvals the governing documents require.

5. Information Becomes a Battleground Quickly

One of the first symptoms of an ownership dispute is often a fight over information. Passwords change. Financial statements stop circulating. One owner asks for bank records, tax returns, payroll data, customer contracts, or accounting access. The other responds that the requests are disruptive or that sensitive information might be misused.

Ohio law gives LLC members statutory inspection rights, subject to the operating agreement and reasonable restrictions. Upon reasonable notice, a member may inspect and copy records maintained by the LLC to the extent the information is material to the member's rights and duties under the operating agreement or Chapter 1706. The statute also permits reasonable confidentiality and safeguarding restrictions in specified circumstances. See Ohio Rev. Code § 1706.33.

Ohio corporate shareholders likewise have statutory rights, upon a written demand stating a specific purpose, to examine specified corporate records at a reasonable time for a reasonable and proper purpose. See Ohio Rev. Code § 1701.37(C).

Neither side benefits when ordinary record access turns into a proxy war. The better approach is to identify the legal right, the legitimate confidentiality concerns, and a controlled production process before accusations about concealment become another claim in the case.

6. Related-Party Transactions Become Harder to Defend When Trust Is Gone

Closely held companies often do business with their owners. The company leases a building from one owner. It buys equipment from another owner's affiliate. A family member is on payroll. One owner advances money to the business. Another receives a management fee. Those arrangements may be entirely legitimate. But once the owners stop trusting each other, every related-party transaction will be viewed through a different lens.

For Ohio LLCs, the statutory duty framework depends in part on whether the LLC is member-managed or manager-managed and on what the written operating agreement provides. In a member-managed LLC, absent permitted modification, the statute identifies duties of loyalty and care, including obligations concerning company property, company opportunities, and adverse dealings. See Ohio Rev. Code §§ 1706.31 and 1706.08.

That statutory framework is another reason not to generalize about “fiduciary duties” without first identifying the entity type, management structure, and governing agreement.

When a dispute begins, related-party transactions should be reviewed for authorization, documentation, pricing, and business purpose. If the transaction is legitimate, a clean record helps prove it. If it is not, continuing it after the dispute becomes obvious can make the eventual problem worse.

7. Do Not Turn Customers and Employees Into a Jury

An ownership fight creates a strong temptation to recruit allies. One owner tells key employees what the other has done. The other calls important customers to explain “what is really happening.” Vendors hear that one owner no longer has authority. Employees are asked to choose who they report to.

That may feel strategically useful in the moment. It can also damage the company faster than the owners can damage each other. Customers care about continuity. Employees care about who is in charge and whether they will be paid. Lenders and vendors care about authority and credit risk. Conflicting messages can cause departures, delayed orders, frozen credit, and lost confidence even when the underlying business remains healthy.

The company needs a communication plan. Determine who is authorized to speak for it, what employees actually need to know, what customers must be told, and what should remain within the ownership dispute. The objective is not secrecy. It is preventing the dispute from becoming the company's public identity.

8. The First Angry Week Is When Owners Can Destroy Their Best Options

The first days after a serious break in trust are dangerous because the owners still have access to the tools of the business. One may control online banking. Another may control customer relationships. One may possess the accounting credentials. Another may hold company

equipment, intellectual property, keys, or passwords. Both may have authority that was never designed for an adversarial relationship.

That is precisely when unilateral action can be most damaging. Do not drain accounts to “protect your half.” Do not delete emails or text messages. Do not lock the other owner out of systems without understanding the authority to do so. Do not transfer customers to a new company. Do not sign a new related-party agreement designed to improve one side's position. Do not destroy records. Do not make threats to employees or customers. Do not assume that because you own half the company, you personally own half of each company asset.

The first goal is to stabilize the company and preserve evidence while the parties determine their rights. A decision that feels like leverage on Monday can become the central exhibit in a fiduciary-duty, injunction, conversion, trade-secret, or dissolution case by Friday.

9. Personal Guaranties Can Keep the Owners Economically Tied Together

Owners who want to separate often discover that ownership is only one part of the relationship. Both may have personally guaranteed the company's bank debt, equipment financing, lease, line of credit, or vendor obligations.

A buyout agreement between the owners does not automatically release a guarantor. If one owner sells his interest but remains liable to the bank or landlord, the parties have not achieved a complete economic separation. Buyout discussions should therefore inventory guaranties early. Can the company refinance? Will the lender release the departing owner? Is substitution possible? Does the purchase price need to reflect continuing contingent exposure? Is indemnification enough if the third-party creditor refuses to release the guaranty?

A deal that transfers the equity but leaves one side exposed to the company's future debt may simply replace the ownership dispute with a guaranty dispute.

10. A Buyout Is Not Just a Number

When owners decide they cannot continue together, the conversation often jumps immediately to valuation. Valuation matters, but a workable buyout requires more than choosing a multiple.

The parties need to identify what is being purchased, how the price will be determined, the valuation date, treatment of cash and debt, owner loans, working capital, pending distributions, tax consequences, payment terms, security for deferred payments, restrictive covenants where enforceable, customer transition, company property, intellectual property, employee communications, and responsibility for existing guaranties.

The valuation process itself can also become part of the dispute. Is the standard fair market value, fair value, book value, or a contractual formula? Are discounts permitted? How are unusual owner compensation and related-party expenses normalized? What happens to a large receivable or contingent liability? Does the governing agreement already answer any of those questions?

A rushed number written on a legal pad is not a buyout structure. The business terms and the separation mechanics have to work together.

11. Deadlock Does Not Mean the Company Has to Die

A genuine deadlock can make ordinary business increasingly difficult. Checks may require signatures the parties will not provide. Hiring, borrowing, distributions, capital expenditures, or strategic decisions may stall. Eventually, the inability to decide can become more damaging than the issue that caused the deadlock.

The governing documents may provide a solution: mediation, arbitration, a tie-breaking manager or director, a buy-sell mechanism, a put or call right, a shotgun provision, or a defined process for winding up.

Ohio law also provides judicial dissolution remedies, but the standards depend on the entity. For an LLC, a member may seek judicial dissolution when it is not reasonably practicable to carry on the LLC's activities in conformity with the operating agreement. See Ohio Rev. Code § 1706.47(E). For a corporation, Ohio's judicial-dissolution statute identifies several grounds and standing requirements, including specified deadlock circumstances. See Ohio Rev. Code § 1701.91.

Dissolution can be necessary. It is rarely the first business objective of owners whose company still has employees, customers, goodwill, equipment, contracts, and going-concern value. The existence of a dissolution remedy should sharpen settlement analysis, not automatically become the opening demand.

12. Preserve the Company While the Owners Negotiate

An ownership dispute often creates a strange alignment: the owners may distrust each other completely while still sharing an interest in keeping the company valuable. That shared interest can support an interim operating arrangement. The parties may agree on spending thresholds, payroll, customer commitments, borrowing, hiring and firing, distributions, access to information, signatures, litigation decisions, related-party transactions, and communications while buyout or settlement discussions proceed.

Sometimes the most useful agreement is not the final settlement. It is a thirty- or sixty-day standstill that keeps either side from taking extraordinary action while ordinary business continues.

Interim arrangements should be specific enough to reduce friction without trying to solve every historical grievance. The objective is to stop the dispute from consuming the asset.

13. The Best Ownership Agreement Is Written Before Anyone Needs It

Many ownership disputes are difficult not because the law provides no answer, but because the owners never made the hard decisions while they still trusted each other. A thoughtful operating, shareholder, or buy-sell agreement can address management authority, reserved decisions, compensation philosophy, distributions, capital calls, transfers, death, disability, retirement, termination of employment, competition, confidentiality, valuation, payment terms, guaranties, deadlock, dispute resolution, and exit rights.

Ohio's LLC statute gives substantial effect to the operating agreement and permits written operating agreements to expand, restrict, or eliminate many duties and liabilities, subject to statutory limits including the implied covenant of good faith and fair dealing. See Ohio Rev. Code § 1706.08. Ohio corporate law likewise permits qualifying close corporation agreements to address internal affairs and owner relations in considerable detail. See Ohio Rev. Code § 1701.591.

The best time to decide what happens if two owners deadlock is when neither believes a deadlock will ever happen.

14. A Practical First-Response Checklist for an Ownership Dispute

• Collect the governing documents: articles, operating agreement, regulations, bylaws, shareholder or buy-sell agreements, employment agreements, voting agreements, amendments, and relevant minutes.
• Identify each owner's separate roles: owner, director or manager, officer, employee, lender, landlord, guarantor, and signatory.
• Determine who presently has authority over banking, contracts, payroll, employees, borrowing, litigation, and major expenditures.
• Preserve financial records, emails, texts, accounting data, customer information, company devices, and other potentially relevant evidence.
• Identify immediate operational risks: payroll, customer commitments, lender covenants, vendor payments, insurance, taxes, expiring contracts, and critical employees.
• Do not make extraordinary distributions, transfers, related-party payments, or changes in compensation without determining the required authority.
• Do not use customer or employee communications as a weapon in the ownership dispute.
• Identify personal guaranties and other obligations that will survive a simple transfer of ownership.
• Separate legitimate business disagreements from claims of misconduct.
• Consider whether an interim operating or standstill agreement can preserve the company while negotiations proceed.
• If a buyout is possible, define the valuation standard and transaction structure before arguing only about price.
• Understand the available litigation and dissolution remedies, but evaluate them against the cost of destroying going-concern value.
• Get advice early enough that counsel can help preserve options rather than merely litigate the consequences of decisions already made.

15. The Business Lesson: Protect the Asset Before You Fight Over It

Ownership disputes feel personal because they usually are. The people involved may have spent years building the company together. Money, effort, family, identity, and trust are all tied to the same business. But the company is still an asset, an employer, a contracting party, a borrower, a customer, a supplier, and sometimes the owners' principal source of wealth.

The first question should not be how to hurt the other owner. It should be how to prevent the dispute from hurting the company. Find the documents. Identify the authority. Stabilize the business. Preserve the evidence. Then decide whether the owners can repair the relationship, restructure it, buy one another out, or separate.

The owners may stop agreeing. The business does not have to stop working.

This article is for general informational purposes only and does not constitute legal advice. Ownership, management, fiduciary-duty, employment, buyout, deadlock, and dissolution issues depend on the entity type, governing documents, ownership structure, facts, and applicable Ohio law.