

Beware of gentleman's agreements in family companies



Just because an agreement is not legally binding does not mean that a court cannot give it effect. This principle was forcibly re-stated in a November 2017 judgment in a case brought against the Oyston family, owners of Blackpool FC.

The Collins Dictionary definition of a gentleman's agreement is an informal agreement in which people trust one another to do what they have promised. The agreement is not written and does not have any legal force.

In the Blackpool case it was held that a gentleman's agreement existed between the Oyston family and the minority shareholder, Mr Belokon, that notwithstanding his minority shareholding Mr Belokon would be treated as an equal partner. Despite the fact that the agreement did not give rise to specific legal rights it amounted to a legitimate expectation on the part of Mr Belokon.

On the facts of the case, Mr Belokon was not treated as an equal partner, was excluded from management of the company and from participation in profits. The Judge additionally found that the Oyston family had sought to avoid paying out profits via dividends but as a matter of fact payments totalling millions of pounds were disguised dividends to the family.

The actions of the Oyston family were therefore in breach of the legitimate expectations of Mr Belokon and consequently unfairly prejudicial to him pursuant to s.994 of the Companies Act 2006.

As a result of the Judge's findings the Oyston family were required to buy out Mr Belokon for the sum of £31m, which far exceeded the value of the shares on a normal valuation basis, but reflected the disguised dividends.

The lesson to be drawn from this is that shareholders should not assume that informal agreements or



arrangements between them cannot give rise to significant legal rights and responsibilities.

As an aside, many lawyers recognise the alternative definition of gentleman's agreement that was put forward by Sir Harry Vaisey who was a High Court Judge from 1944 to 1960. His definition is as follows:

A gentleman's agreement is an agreement which is not an agreement, made between two people neither of whom are gentlemen, whereby each expects the other to be strictly bound without himself being bound at all.



[Ed Weeks](#)

Partner