Drag Along & Tag Along Rights

What is a Drag Along Right

A Drag Along Right is a clause in an agreement (usually a shareholder agreement, buy sell agreement or operating agreement) that enables a majority shareholder to force a minority shareholder to join in the sale of a corporation. If majority shareholder desires to sell his stock to a buyer, then majority shareholder can exercise his Drag Along Right and require minority shareholder(s) to sell their stock to buyer on the same price, terms and conditions as majority shareholder. Drag Along Rights are designed to protect majority shareholders.

For example, senior dentist owns 85% of the stock in the corporation and junior dentist owns 15% of the stock in the corporation. Senior dentist wants to sell all his stock to an unrelated third-party buyer. The buyer wants to purchase 100% of the stock in the corporation and is not interested in only purchasing senior dentist’s 85%. Senior dentist may exercise his Drag Along Right and require junior dentist to sell his 15% to the buyer.

What is a Tag Along Right

A Tag Along Right is a clause in an agreement (usually a shareholder agreement, buy sell agreement or operating agreement) that enables a minority shareholder to join in the sale of a majority shareholder’s stock. If a majority shareholder desires to sell his stock to a buyer, then the minority shareholder(s) have the option to sell their stock to the buyer on the same price, terms, and conditions as the majority shareholder. Tag Along Rights do not require a minority shareholder to sell – Tag Along Rights gives minority shareholders the option to tag-along and sell their stock with the majority shareholder. Tag Along Rights are designed to protect minority shareholders.

For example, senior dentist owns 85% of the stock in the corporation and junior dentist owns 15% of the stock in the corporation. Senior dentist wants to sell all his stock to an unrelated third-party buyer. Junior dentist may exercise his Tag Along Right and sell his 15% to the buyer on the same price, terms, and conditions.