

SHAREHOLDER AGREEMENTS

Shareholder Agreements record arrangements between Shareholders in Companies, on matters such as:

- Scope of business. It is important that Shareholders have a clear understanding between them of the focus of the business and future plans.
- The level of agreement between Shareholders and Directors required for decision making eg. majority or special majority votes, for different types of decisions.
- Entry and exit arrangements for Shareholders. These are important areas that need to be understood, particularly where it is proposed that a new Shareholder be introduced or if a Shareholder wishes to leave the business. Arrangements needs to be discussed concerning issues such as whether there is any obligation to buy an existing Shareholder's interest or whether an existing Shareholder has a right to require others to buy their shareholding (tag along and drag along provisions).
- The minimum period for which a Shareholder must commit to the Company.
- A dispute resolution procedure. If the Shareholders disagree on any issue, it is best to have a dispute procedure recorded in the Shareholders Agreement.
- Shareholder's incapacity or death. If possible, Shareholders should agree on how long the Company should continue to fund sick Shareholders and the arrangements concerning Shareholders who become incapacitated or die. Insurance arrangements will also need to be considered for incapacity and death.
- The arrangements for contributions of funds and how the loans are to be repaid.
- Security for Shareholder loan advances to the business. Where Shareholders are providing loans to the Company/business, or other financial accommodation in the form of guarantees for Bank facilities or leased premises, Shareholders should take security over the assets of the Company, where possible. This may be subordinated to any other secured creditor eg the Company's trading Bank.

- Annual leave, holidays, Shareholder entitlements and/or payment for services - these issues need to be addressed in the Agreement so that everyone within the business knows what the rules are and where they stand with each other.
- Business objectives and vision, and possibly the intended life span or term of the business eg it may be a “special purpose” business for a set term, or only while certain people are involved.