

Shareholders' Agreements

Whilst you may be confident that your business will be successful and your relationship with the other business owners be harmonious, there is no guarantee that you will not have a dispute at some time in the future, whether in relation to money or the way in which the business should operate. To avoid significant costs in resolving such disputes you should have a shareholders' agreement.

If you are starting a business you should have it from the outset or if you already have an existing business you should enter into one as soon as possible. You may not need to refer to it at all but at the time it is prepared it may prompt you and the other business owners to discuss matters you had not thought about previously, such as:

- What happens if a shareholder wants to leave the business; this can be in terms of the transfer of their shares (ie: to the other shareholders or to be sold to a third party) and value of the shareholder's interests in the business. Both of these points can often be the subject of a dispute, especially if the way of calculating the value has not been previously agreed
- What the nature of the business shall be; this can be as flexible or restrictive as the shareholders want
- The level of expense or liability which each shareholder can incur on the business' behalf without the consent of other shareholders, including taking out loans / overdrafts and contracts for the supply of services or goods to the business
- What changes can be made to the business without the written consent of the other shareholders. This includes entering into contracts which are not "usual" to the business
- When a shareholder can be made to leave the business, such as if they are declared bankrupt or in breach of the agreement etc
- Whether a shareholder must also resign as a director on selling their shares or whether he can continue to act as a director but not a shareholder

You should always seek advice on your individual circumstances; this leaflet is for information only, and does not constitute advice.

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