

How we can help with

Shareholders' Agreements

A Shareholders' Agreement is a contractual arrangement between the shareholders of a company that is designed to govern the relationship between them.

They are mainly used by private companies and are of particular use in joint ventures.

While a company's Articles of Association provide an official 'rule book' for the company backed by the force of statute a Shareholders' Agreement is a flexible document that can be tailored to meet the particular needs of shareholders with regard to how the company is run. In addition, a company's Articles have to be registered and are available for public inspection; in contrast a Shareholders' Agreement is a document that is personal and private to the parties concerned.

When is a Shareholders' Agreement of most use?

A Shareholders' Agreement is most frequently drawn up when a new company is formed or a joint venture is set up. They are also used by established, smaller private companies as part of a company reorganisation or when a new shareholder is introduced.

What areas might be covered by a Shareholders' Agreement?

Typical features include:

- Setting out differential rights to profits and/or dividends for individual shareholders;
- Specifying areas which require the consent of all shareholders such as altering the rights attaching to different classes of shares of the company, entering contracts or purchasing assets above a certain monetary value and selling the company;
- Stating how often board meetings will be held;
- When shares may or may not be transferred by existing shareholders and valuation;
- Restrictive covenants for exiting shareholders;
- Provisions for dealing with disputes or for the termination of the agreement and for the winding-up of the company and
- Measures to protect the interests of minority shareholders.

A Shareholders' Agreement can therefore help to:

- Provide certainty by setting out a clear framework of responsibilities for each shareholder and help to ensure the efficient running of the company;
- Set out clear, agreed procedures and methods of taking decisions which can reduce the likelihood of potentially costly and disruptive disputes;
- Set out an agreed way of resolving disputes should they occur and also provide a timely exit route for shareholders in the event the dispute cannot be resolved and
- Ensure that the terms of any Agreement remain confidential.

Additional considerations

- New shareholders are not automatically bound by a Shareholders' Agreement. If it is anticipated that in the future there could be new shareholders the Agreement can provide that they must become a party to the Agreement before the transfer of their shares is registered.
- A common problem faced by shareholders is what happens on the death of one of them. One possibility is for each shareholder to give the other an option to purchase his shares on death with the costs being covered by a life insurance policy for the estimated value of his shares.

Like to find out more?

To find out more about how a Shareholders' Agreement could help you or your company please contact one of our Solicitors in the Corporate Services team on **01635 521212** or by email:

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