

## Why have a Shareholders' Agreement?

There are a number of reasons to consider having a Shareholders' Agreement, as set out below. (Some of these issues are alternatively dealt with in an amended set of Articles of Association.)

- **To control decision-making at Board and Shareholder level:** The default Company Law position will not automatically allocate control, protection or rights as appropriate (or intended) between Shareholders. Often it is sensible to agree a list of matters that cannot be carried out by the company unless a specific number of Shareholders give their consent.
- **To control shares when a Shareholder leaves or dies:** You can ensure that shares are offered to other Shareholders (at appropriate values depending on the circumstances) so they do not end up with third parties.
- **To control minority Shareholders:** It is possible to place restrictions on Shareholders if they leave the company and compel them to transfer their shares in certain circumstances (e.g. if the majority want to sell all of the company to a third party).
- **Dividend Policy:** For example, if different classes of shares are created (A, B, C etc.) it is still necessary to set out how it is intended that dividends be allocated between them (to avoid problems with income shifting).
- **To help deal with disputes:** These are not uncommon and dealing with a dispute without a starting point for resolution is usually a lot more difficult and expensive. Don't leave it too late!
- **Other reasons:** To deal with further financing and the issue of new shares/share options. A Shareholders' Agreement can also set out what each Shareholder is agreeing to commit to the company in terms of effort or other support.
- **Articles of Association:** Now is a good time to review your company's Articles of Association – to take advantage of the increased flexibility and deregulatory provisions of the new Companies Act 2006 (and remove unnecessary restrictions and misleading references), which will help streamline the administration of the company.

If you have any queries about the above, please contact Paul Warman or Richard Guthrie on 01603 610911 (or by email to [pwarman@leathesprior.co.uk](mailto:pwarman@leathesprior.co.uk); [rguthrie@leathesprior.co.uk](mailto:rguthrie@leathesprior.co.uk)).