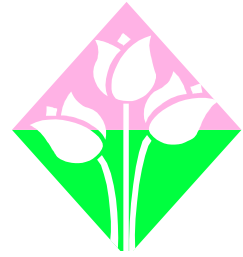




Happy Spring!

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“Tip of the Month”

Shareholder Agreements

Any business owned by more than one person has ownership shares. This is true whether the business is a corporation, limited liability company (LLC) or even a partnership. Small, closely-held business owners usually want to have some control over those shares. One of the best ways to establish controls is by agreement.

Share Transfers. Business owners usually want to restrict the transfer of shares. They don't want just anybody to show up one day as their new partner. A Shareholder Agreement can provide that existing shareholders have a right of first refusal to buy the shares at the price offered by any third party. Then if the shareholders did not buy the shares, the corporation might have a right of “second refusal” to buy them. All of this would be within a certain period of time.

Share Buyout. The agreement can provide for what happens to shares when a shareholder leaves the company because of death, disability, retirement, quit, or termination (kicked out). In each case, the shares should stay within the company and not be out floating around in the world. Buyout of shares can be by redemption if a corporation buys them back, or by cross-purchase if the other shareholders buy them.

The agreement can provide a formula for valuing the shares and provide for a payment plan. The buyout can be funded by life insurance in the event of death.

Rights and Responsibilities. Often, shareholders are also officers and employees of the company. A Shareholder Agreement can spell out the duties of the owners, much like an employment agreement. This can help frame accountability for work that needs to be done, and can help reduce turf battles. The agreement can include confidentiality and non-compete terms.

Dispute Resolutions. Disputes among shareholders can sometimes lead to “corporate divorce.” To help avoid this, the agreement can provide a mediation procedure to help facilitate discussion toward settlement. Arbitration can be used instead of court if the parties disagree on the value of the shares in a buyout, and for other disputes.

The Shareholder Agreement should be designed to fit the company's particular needs. One size does not fit all companies. If you would like to discuss your company's design for agreement, please feel free to give us a call at 668-1971 or contact us through the Internet at *Meslaw @ aol.com*.

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