



CORPORATE · GUIDE

Why a shareholder agreement matters

The handful of decisions that are far easier to make before you need to.

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If you are starting or running a company with other people, a shareholder agreement is the document that decides, in advance, what happens when things change. And things always change. People leave, people disagree, people die, people want out, someone wants to bring in a partner the others do not like. A shareholder agreement is where you agree on the rules while everyone is still getting along, because that is the only time it is easy.

What it is

It is a contract among the shareholders of a corporation, often signed by the corporation too, that governs the relationship between the owners. It sits alongside the corporation's articles and by-laws and deals with the practical, human questions that those documents do not.

Without one, you fall back on the default rules in the governing corporate legislation and on whatever you can negotiate in the moment, usually a moment when the relationship has already broken down. That is the expensive way to do it.

The decisions it lets you make in advance

Here are the questions a good shareholder agreement answers before you need the answers:

How are decisions made? Which decisions need a simple majority, which need everyone to agree, and which management can make alone. This stops one shareholder from being steamrolled and stops the company from being paralyzed by one holdout.

What happens when a shareholder wants to leave or sell? Can they sell to anyone, or do the others get the first right to buy their shares? At what price, and how is that price set? This is one of the most important parts, because nobody wants to suddenly find themselves in business with a stranger who bought a partner's shares.

What happens if a shareholder dies or becomes disabled? A well-drafted agreement deals with this, often funded by insurance, so the surviving owners can buy out the departing shareholder's interest without scrambling for cash, and the family gets fair value without being stuck owning part of a business they cannot run.

What happens if shareholders fall out? Deadlock and dispute mechanisms, sometimes including the well-known "shotgun" arrangement, where one side names a price and the other side chooses whether to buy or sell at that price. It is blunt, but it breaks deadlocks.

Can a shareholder be forced out, or required to come along in a sale? Provisions that deal with an owner who is no longer pulling their weight, and provisions that stop a minority owner from blocking a good sale of the whole company, or being left behind in one.

What are the obligations of the owners? Whether they have to work in the business, restrictions on competing with it, confidentiality, and what happens to their shares if they stop being involved.

How does money come out? How profits get distributed, how dividends are decided, and how additional capital gets raised if the company needs more money.

Why "we trust each other" is not a reason to skip it

The most common objection is some version of "we are friends, we do not need this." That is exactly backwards. You write the agreement because you are on good terms now. The whole value of it is that you set fair rules at a time when nobody knows which side of those rules they will end up on. That neutrality is impossible to recreate once there is a dispute, because by then everyone is arguing for the outcome that helps them.

The friendliest time to agree how you would handle a breakup is before there is any chance of one. Two years in, when one founder wants out and the other does not, every clause becomes a fight.

What it costs you to skip it

When there is no agreement and something goes wrong, the options are negotiation under pressure, or going to court. Disputes between shareholders are among the more painful and expensive problems a business can have, and they often happen at the worst possible time, when the business is either struggling or finally succeeding enough to be worth fighting over. A shareholder agreement is cheap insurance against that.

Bottom line

If you own a company with anyone else, even one other person, even a close friend or family member, you want a shareholder agreement. The best time to put one in place is at the start, when the terms are easy to agree and nobody has a reason to game them. It also pairs naturally with getting your corporate records in order and is the document you most want in place before you bring in any new owner or investor. The second best time to do it is today. Talk to us about what yours should cover, because the right provisions depend on your business, your partners, and what you are each bringing to it.

This is general information about shareholder agreements in Ontario, not legal advice for your company. The right agreement depends on your specific situation, your co-owners, and your goals. Talk to us before you rely on a template or go without one.

This article is general information, not legal advice. For advice on your situation, book a free consultation.

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