

## Standard Outline for a Partnership or Shareholder Agreement

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The ideal time to reach unanimous agreement regarding how a company is organized, operated, changed or liquidated is before the investment transaction takes place. In order to have a productive meeting, you need an agenda and you need to make decisions; decisions that stand the test of being committed to writing in order to deal fairly with future events and consequences that may or may not occur.

**Note:** This format is designed to help build a consensus among subscribers, but it is **NOT** a substitute for legal counsel, or the requirements of the Securities Commission in your province.

- Describe the partners or shareholders and their investments.
- Describe the firm's trade name and style of identity.
- Describe the nature and scope of business activity.
- Identify the official business office address, and phone number.
- Establish a date to review the agreement.
- Detail each equity contribution and include the terms of each shareholder loan.
- Establish all banking resolutions and signing authorities.
- Establish the limits for personal guarantee bonds and postponements before negotiating any bank financing.
- Establish a dividend policy.
- Establish compensation for per diems, bonuses, salaries or drawings for the term of the agreement.
- Establish a policy for the inspection of business records and right of audit.
- Establish insurance coverage(s) and the indemnification of directors for contingent liabilities of the firm.
- Establish provisions for partners or shareholders:
  - wishing to retire;
  - withdrawing equity;
  - settling an estate;
  - in arbitration of disputes;
  - spelling a partner;
  - selling to an outsider.
- Establish provisions to evaluate the share of a retiring or deceased partner's interest.
- Establish rights and options for surviving or remaining partners or shareholders to purchase the interest.

- Establish the terms for restrictive covenants, conflict of interest, and non-competition agreements for partners leaving the firm.

Many simple companies are forged as 50/50 or equal partnerships in order to avoid the less exciting details of a formal agreement and get on with the business. The buy/sell agreement in these situations is usually just a simple "SHOTGUN" clause (possibly named after a wild west version of the Mexican Standoff). In these situations, one party makes an offer and the recipients of the offer can either sell by accepting the amount, terms and conditions, or turn around and buy on exactly the same basis; thereby forcing the offer back to the issuer. This is quick end befitting a quick beginning!

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Prepared by: Government of Saskatchewan

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For further information regarding starting a business, contact the

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*Information contained in this document is of a general nature only and is not intended to constitute advice for any specific fact situation. Users concerned about the reliability of the information should consult directly with the source, or seek legal counsel.*

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