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**Avoiding a Bad Breakup - The Shareholders' Agreement**

*By Conor Cronin*

After you have decided to go into business with one or a group of other entrepreneurs and your start-up is ready to incorporate, you and your co-founders should consider entering a Shareholders' Agreement. Along with setting out the obligations of each shareholder and the governance structure and decision making process of a corporation, a Shareholders' Agreement sets out what happens when the relationship between shareholders breaks down. It is contract between shareholders that defines the legal relationship between them.

A Shareholders' Agreement helps co-founders plan for the worst. If the working relationship breaks down between shareholders running a company, the Shareholders' Agreement can set out the steps necessary to end the working relationship amicably without the expense and hassle of negotiation or even litigation.

A Shareholders' Agreement can also set out to whom shares may be sold and when; gives shareholders a right of first refusal to buy shares if the corporation decides to issue more stock or a shareholder or group of shareholders wish to sell their shares to a third party; gives a shareholder the right to be included in the sale of shares to a third party ("Piggy Back"); gives majority shareholders the right to force a minority shareholder to sell his or her shares to a third party along with them ("Drag Along"); and sets out a process whereby one shareholder may offer to buy the shares of another who, if s/he does not accept the offer to buy, must buy the offeror's shares on the same terms (a "Shot Gun Sale").

If the relationship between shareholders starts turning ugly, you can focus on setting it right, comforted by the knowledge that at the very least you are protected by the Shareholders' Agreement. If it cannot be fixed, rely on the Shareholders' Agreement to end the business relationship quickly and cleanly. If your start-up is successful and attracts outside investors who do not want to be a part of a Shareholders' Agreement, the agreement can set out terms for its cancellation or modification.

Starting a new business is exciting, especially for groups of young entrepreneurs. Maintaining working relationships with other young entrepreneurs is important. Your start-up community may be small. An ugly, protracted breakup with your co-founders may make it difficult to find people to work with on your next start-up. Preparing for the worst case scenario will not only allow you to end a deteriorating relationship amicably, but will also show your community that you can work with anyone professionally. While the incorporation process may be expensive, if you are starting a business with a group of founders, seriously consider taking the extra step in preparing a Shareholders' Agreement so that if one venture does not turn out to meet the ambitions of its founders, the shareholders can move on to their next idea and remain on good terms with each other.

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