

# SAMPLE SHAREHOLDER AGREEMENT

## I. PURPOSE

The purpose of this agreement shall be to define the procedures by which the [insert company or family name] family, here-in-after, "The Shareholders," shall be governed as they conduct their business as it relates to [insert company or family name] Holdings and all related and/or subsequent businesses, here-in-after, "The Company," that they do or shall jointly own. It is the intent that the family of shareholders will "speak with one voice," as they set the policy and direction of The Company.

## II. GUIDING PREMISES

A. The desired objective sought by the Shareholders is to keep The Company as a working asset. Further, it is the intent not to liquidate The Company in the near term future.

B. "Near term" is defined as during the \_\_\_\_\_ years following signing of this agreement.

## III. SHAREHOLDER PREROGATIVES AND RESPONSIBILITIES

### A. Information

All Shareholders, without regard to their percentage ownership or their employment status relative to The Company, shall be entitled to receive:

1. The annual consolidated financial statement of The Company.
2. The adopted budget for each fiscal year.
3. The quarterly financial reports and appropriate supporting documentation on the actual progress in achieving said budget.
4. The report of the semi-Annual Audit, which will have been conducted and completed by an accredited, international accounting firm.

Further, all Shareholders shall sign an agreement not to disclose any of the information they receive regarding The Company, except in discussion with legal or financial advisors wherein the relationship with that advisor is governed by the concept of "Client Confidentiality."

### B. Prohibition of Insider Transactions

Shareholders and their immediate family or their relatives are specifically prohibited from using any information they receive as shareholders or as managers for the purpose of trading in shares of any and all companies controlled by The Company or in companies owned by shareholders in

1 the same or related industries. (The intent is to prohibit any and all "insider"  
transactions.)

C. Annual Shareholder Meeting

6 All Shareholders shall be entitled to attend the Annual and Quarterly  
meetings of The Company. Further, the dates for these meetings shall be  
permanently set and fixed at the first Annual meeting following the signing  
of this agreement. The dates shall be set according to a fixed day in a  
11 pre-determined month. Shareholders shall receive, and the Chairman  
shall cause to be sent, notice of these meetings on an annual basis and  
then again, fifteen business days prior to the meeting. No changes in the  
meeting date and place shall be made after the fifteenth calendar day  
prior to the meeting. Further, Shareholders shall receive relevant  
16 documentation and information for this meeting not less than five  
business days prior to each said meeting.

Non-employed Shareholders are defined as any [insert company or family  
21 name] family member owning shares but not a full time employee of the  
holding company or one of its subsidiaries. They are expected to come  
to these meetings fully prepared through independent study and analysis  
of information supplied to them as provided in the first paragraph of  
Section III-A of this agreement.

D. Dividend Policy

26 (For Sub-S companies, this section is moot.)

Shareholders shall have the express right to receive, and the Chairman  
shall have the express obligation to distribute, dividends based on the  
31 profitability of The Company. Profits shall be defined by, and determined  
in keeping with GAAP (Generally Accepted Accounting Principles). The  
total dividend distribution shall be not less than 25% nor more than 75%  
of the after-tax profits in any one fiscal year, with the exact amount to be  
determined by the Board of Directors, based on the recommendation of  
36 the Chairman. Should the net after-tax profit fall below a specified level,  
there will be no distributions as Shareholders recognize and agree that  
under such conditions The Company will require the liquidity to address  
the reasons for profits being below the specified level. The level will be  
determined by the Board of Directors. The decision not to distribute  
41 dividends shall be made by a simple majority of the Shareholders without  
regard to their percentage ownership of The Company.

Any decision to depart from this policy must be approved by a super  
majority of 75% of the Shareholders.

1 It is the intent that all shareholders shall receive dividends based on their  
ownership and without regard to gender or employment status in The  
Company.

6 E. Transfer of shares by Shareholders

If a shareholder has issue, (children), then said shareholder has the right  
to gift shares in The Company to that issue, either through his/her estate  
or during his/her lifetime. The family value is such that said gifting is  
intended to be on a per stirpes, gender blind basis. Only lineal  
11 descendants may hold shares in The Company. Legally adopted children  
shall be treated the same as if they were natural or biological children of  
lineal descendants. Recipients of shares gifted shall be subject to all the  
terms of this agreement.

16 If a shareholder is married, they may place their shares in some legal  
entity, such as a Trust or organize their estate in such a manner, so that if  
or when they pre-decease their spouse, the surviving, non-lineal  
descendant spouse shall have and receive during their lifetime, all  
benefits and prerogatives as if the surviving spouse owned said shares  
21 directly. The surviving spouse does not have "power of appointment" as  
to the disposition of the shares after their death. At the death of said  
surviving spouse, the shares shall revert to the Treasury of The Company.  
***(Bork Note: It will be necessary to consult on how to do this so the  
Company does not pay out any funds at the time of this transaction.  
This may be an insurable transaction. In the case where there are  
26 issue, there could be a step in the estate planning whereby the  
shares then go to the children of the shareholder after the death of  
their last parent and any insurance held by the Company on the last  
spouse to die, will go to pay any death duties or transfer taxes. It is  
31 the specific intent of this provision that the shares are "folded back"  
into the Company. This keeps the ownership from being diluted.)***

36 F. It is agreed that a shareholder of the Company may not independently  
own shares in a subsidiary company where the ownership of shares in  
that company is closed. Shareholders of shares in The Company may  
own shares of subsidiary companies that are publicly traded.

41 If, at the time of signing this agreement, a shareholder owns shares in a  
closed company that is owned by The Company, then those shares will be  
purchased directly from the family member owning them, not before 180  
days and not later than 365 days after signing of this agreement. The  
price to be paid in this transaction will be in accordance with the Valuing  
section of this agreement.

46 G. Non-compete Agreement

1 All Shareholders, whether employed in key positions or not employed at  
all, shall be required to sign a "Non-compete" agreement that governs  
proprietary information of [insert company or family name].

6 H. Family Employment Policy

The Chairman of the Board of [insert company or family name] Holdings  
shall cause to be developed a family employment policy that shall apply to  
the Shareholders, their spouses, their lineal descendants and relatives of  
spouses. This policy shall be adopted by the Shareholders at the first  
11 Family Business Forum meeting, after the adoption of this agreement, but  
no later than December 31, 1997, and be operable and in force from that  
date thereafter. Once adopted by a simple majority, it will require a super  
majority of 75% of the share holdings to change the policy. **(See example  
of such policy in "Working With Family Business, a guide for  
professionals.")**

16 I. Executive Compensation

It is specifically agreed that all compensation paid to Shareholders who  
21 are also employees of the Company, shall be "fair market" compensation  
for an equivalent position in a publicly traded company. This is to include  
the fringe benefit package as well as the compensation for the specific  
position. There shall be no allowance for "entitlement."

26 J. Family Values and The Company

The Shareholders wish to give recognition to the fact that the foundation  
and roots of this Company are grounded in the values of the [insert  
company or family name] Family. They encompass but are not limited to  
31 the following:

Fundamental respect for one another; honesty in all dealings; to be  
supportive of each other; open, sincere and genuine in their interaction;  
governed by rational processes; loving and caring; pursue high levels of  
36 education and full understanding of matters; be realistic in expectations;  
fun loving and family centered.

In view of this, the Shareholders agree to endeavor to uphold these  
principles in all of their dealings with each other. Further, they agree to  
41 participate in an annual "event" that will be connected with their annual  
meeting. They also agree to participate each year in a "Family Holiday"  
that will be planned by a sub-committee of the family. The family  
recognizes that without the commitment to interact with one another on  
this basis, their fundamental value base is at risk of becoming less sound,  
46 undermined or fractured. For the "Family Holiday," each shareholder is  
responsible for their own expenses.

1 IV. DECISION MAKING AT THE SHAREHOLDER LEVEL AND WITHIN THE  
HOLDING COMPANY

6 A. It is the intent of the [insert company or family name] family to maintain  
control of The Company. Currently there are non-family owners of small  
percentages of shares of the Company's subsidiaries. This section on  
decision making specifically refers to voting the family share holdings. It is  
the intent of the family to "speak with one voice."

11 The following are exceptions to the procedure of speaking with one voice:

- 16 1. Decision to sell the entire Company to a non-related party shall  
require a super majority representing 75% of the shares. Decisions to  
sell a segment of the Holdings that constitutes less than 10% of the  
entire value of the Holdings shall require a simple majority of 50+% of  
the shares.
- 21 2. Decision to modify this agreement shall require a super majority  
representing 75% of the shares.
- 26 3. Decision to merge with another company or sell to another wherein  
the percentage ownership of the merged entity held by the [insert  
company or family name] Holdings Shareholders is in aggregate , less  
than a controlling percentage, shall require a super majority  
representing 75% of the shares.
- 31 4. Decisions to substantively alter the capital base and/or create new  
shares shall require a super majority representing 75% of the  
Company shares. The intent is to be within the range of the ratios of  
those found in comparable international companies.

36 B. Creation and Implementation of [insert company or family name] Holdings  
Policy

41 The Shareholders, at the Board of Director level, shall determine the  
general direction and overall policy of the Holding Company. The head of  
each business unit owned by Holdings shall be responsible for creation  
and implementation of strategies that reflect the decisions of the President  
of [insert company or family name] Holdings, who is accountable to the  
Board of Directors of Holdings. Clearly stated, the Holdings Board of  
Directors sets the policy and over all strategy, the President sees that the  
individual business units functions within that policy and strategy. The  
head of each unit or subsidiary is charged with the responsibility for the  
day-to-day decisions related to operation of that business unit. Further,  
evaluation of that head of the unit's performance will be based on the  
degree to which he/she has achieved the budget and strategic objectives  
that have been approved for that business unit.

1 V. SALE OR TRANSFER OF SHARES WITHIN THE ORIGINAL SHARE HOLDING  
GROUP OR BETWEEN SHAREHOLDERS AND THE COMPANY.

A. Valuing Shares

6 For purposes of transactions under this section of the agreement, the  
following principles shall apply”

1. Valuation Method

11 In each even numbered year, as part of the year end financial  
statement, the Chief Financial Officer of [insert company or family  
name] Holdings shall direct the outside accounting firm to prepare a  
valuation of each of the companies owned and the company in  
16 aggregate. The valuation established shall apply to all stock transfer  
transactions done at the Holding level until the next valuation is  
completed.

21 This valuation shall be made on the following basis: Said accounting  
firm shall use three different methods of determining the share value,  
with these methods being appropriate for this type of company. The  
final value to be used in all transactions outlined in this section shall  
be the arithmetic average of the highest value and the middle value  
determined in the three methods.

26 ***(Bork recommendation: You must work with your accountant to  
come up with the specific methods. The operable criteria are that  
the method is fair, reasoned, consisted and universal. By  
establishing this procedure and placing it in an agreement that binds  
all Shareholders, one removes one of the most common areas of  
31 dispute in these transactions.)***

2. Discounting of share holdings

36 The Shareholders acknowledge the generally accepted principle of  
discounting share holdings in family and closely held companies due  
to their lack of marketability. For purposes of transactions under this  
section, shares transferred between Shareholders will be discounted  
by \_\_\_\_% of the value determined in Section V-A,1 above.

41 3. Sale of shares by shareholder

46 If a shareholder wishes to sell all or a portion of their shares, they  
must first offer them to other Shareholders at a pro-rata basis  
according to their existing holdings. This offer must be done in a  
formal, written manner with the price based on the valuation in force  
at that time. The recipient(s) of the offer are obliged to give a written

1 response to the offer to sell within twenty (20) business days. If the  
offer is accepted, then the transaction shall proceed in a manner  
mutually acceptable to the buyer(s) and the seller.

6 If the offer is rejected by the other individual Shareholders, then the  
person wishing to sell shall give written notice to the [insert company  
or family name] Holdings Chairman that he/she is desirous of having  
the Holding Company purchase the shares. The Holdings Chairman  
shall place this proposed sale/purchase on the agenda of the next  
11 regularly scheduled meeting of the Board of Directors of Holding or  
one of its subsidiaries. The Board of Directors is obliged to make a  
decision on this matter within six months of the request to  
sell/purchase. No share purchase by the Company can be executed  
if the transaction would cause the Company to be in violation of the  
bank lending covenants.

16 It is specifically agreed that during the five years following the signing  
of this agreement, no shareholder will offer their [insert company or  
family name] Holdings shares for sale.

## 21 VI. IMPASSE RESOLUTION

- 26 A. This procedure applies to the process of the family "speaking with one  
voice" in various transactions. The Shareholders recognize that it is  
possible that at some point in the future they could be at impasse on a  
decision to be taken at the shareholder level. Further, it is the intent of  
the Shareholders to avoid shareholder litigation if at all possible.

31 For purposes of this section, impasse shall be defined as that situation  
wherein shareholder(s) representing 40% of all the shares, declare that  
they are "At Impasse" on a particular matter. Such declaration shall be  
communicated by that/those shareholder(s) within 72 hours of when the  
disputed decision is taken or when a proposed decision is in dispute. The  
36 declaration shall be communicated in writing and be delivered to the other  
Shareholders in an official, documented manner. Registered mail is the  
preferred method.

### 41 B. Mediation

46 Within two business days of receipt of such notice, the Chairman of the  
Holdings Board of Directors shall engage an impartial third party or a  
professional mediator to examine the details in the matter. The  
examination shall take place within 10 business days of the selection of  
the impartial third party or professional mediator, with that person  
rendering their opinion within 15 business days of their selection. The  
mediator's opinion will be delivered to all Shareholders in a meeting that

1 has been arranged expressly for that purpose. If the shareholder(s) who  
declared the impasse are satisfied with the opinion, then the matter is  
finished. The mediator shall prepare a document reflecting the final  
6 decision and resolution of the matter. Initiating Shareholders must  
declare in writing, their acceptance of the mediators decision. Further, the  
mediator shall cause such a document noting their acceptance, be  
prepared and be available for signing at this meeting. All Shareholders  
shall be obliged to sign this document.

11 Should the initiating shareholder(s) not be satisfied with the decision,  
he/she/they have 24 hours to give written notice to the Holdings Chairman  
and all other shareholders that they are invoking the arbitration procedure.

### C. Arbitration

16 On receipt of the above notice requesting arbitration, the Chairman of the  
Board of Holdings shall give notice to al Shareholders that the specific  
matter has been referred to arbitration. All matters relating to arbitration  
shall be in accordance with the procedures set down by the American  
Arbitration Association. This includes selection of the arbitrator.

21 The decision of the arbitrator shall be binding on all signatories to this  
agreement, their heirs and assigns. No exception shall be make in the  
aforementioned binding commitment to the decision of the arbitrator.

## 26 VII. ADOPTION OF THIS AGREEMENT

31 This agreement is officially in effect on the date when the last of the  
signatories listed below has affixed their signature to the original  
agreement. Further, all signatories shall receive a copy of the document  
for their records.