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## **Shareholders' S Corporation Agreement**

### **^ABC INC. SHAREHOLDERS'S CORPORATION AGREEMENT**

THIS SHAREHOLDER'S S CORPORATION AGREEMENT (hereinafter referred to as the "Agreement") is made this ^ day of ^, 200x, by and among ^ABC INC., an STATE NAME corporation (the "Company"), and ^D.E.F., ^G.H.I., ^J.K.L., ^M.N.O. and ^P.Q.R. (collectively, the "Shareholders").

#### **EXPLANATORY STATEMENT**

The Company wishes to file an election to be taxed as an S corporation under the Internal Revenue Code of 1986, as amended (the "Code"), and each of the Shareholders has agreed to consent to such election.

In order to maintain the Company's S corporation status, each Shareholder is agreeable to certain restrictions on the transfer of the shares of voting and nonvoting Common Stock of the Company (the "Common Stock") owned by such Shareholder.

NOW, THEREFORE, in consideration of the mutual covenants and agreements of the parties hereto, the parties hereto do hereby covenant and agree as follows:

#### *1. Consent to S Election.*

(a) Each Shareholder hereby irrevocably consents to the election by the Company of S corporation status under the Code and agrees to execute and deliver to the Company Internal Revenue Service Form 2553 concurrently herewith.

(b) Each Shareholder hereby covenants and agrees that he or she will not take any action, and will refrain from taking any action, that would be reasonably likely to, in the opinion of counsel to the Company, terminate the Company's S corporation status or jeopardize the Company's retention of its S corporation status, except as specifically provided in this Agreement.

#### *2. Restriction on Sale of Common Stock.*

(a) Each Shareholder agrees that he or she shall not, during the term of this Agreement, sell, assign, encumber, pledge, hypothecate, donate or otherwise transfer (whether or not for consideration) all or any portion of the shares of Common Stock now or hereafter owned of record or beneficially by him or her, except pursuant to the terms of this Agreement or with the prior written consent of the Company, which the Company may withhold in its sole and absolute discretion. It is acknowledged that the Company will not consent to any transfer by any Shareholder or by operation of law which may, in the opinion of the Company, jeopardize or call

into question as a result thereof, the status of the Company as an S Corporation.

(b) Each Shareholder agrees to make, by his last will and testament or a codicil, a specific bequest of all of his shares of Common Stock to natural persons whose ownership of such shares of Common Stock shall not result in loss by the Company of its S corporation status.

### *3. Restrictive Legend.*

Each stock certificate of the Company representing shares of Common Stock owned of record or beneficially by each of the Shareholders shall bear the following conspicuous restrictive legend:

"Transfer of shares of Common Stock of ^ABC INC. evidenced by this certificate is limited by the terms and provisions of a certain Shareholders' S corporation Agreement dated ^, 19^. A copy of such Agreement is on file at the principal office of the Corporation and will be furnished to the holder of this certificate upon request and without charge."

### *4. Request to Transfer.*

(a) If any Shareholder shall wish to transfer in any manner any or all of his Common Stock to any other person, such Shareholder shall give notice to the Company not less than ^ days prior to such proposed transfer identifying the proposed transferee, and shall furnish the Company with any and all other information reasonably requested by the Company or its counsel regarding the proposed transaction and the proposed transferee. If the Company consents to the proposed transfer it shall notify the requesting Shareholder in writing of its determination within ^ days after notice of the proposed transfer has been received by the Company. The Company shall be under no obligation to consent to any proposed transfer.

(b) If the Company consents to the transfer pursuant to Subsection (a) above, the requesting Shareholder shall be permitted to transfer the shares of Common Stock in accordance with the terms specified in his notice to the Company within 30 days after receipt of notice from the Company of its consent to the transfer.

(c) In the event the Company does not consent to the proposed transfer, or if the Company fails to give notice to the requesting Shareholder of its consent within the time specified in Subsection (a) above, then the requesting Shareholder shall not make the transfer, and the Company shall not be required to effect the transfer on the transfer books maintained by the Company.

### *5. Transfer by Reason of Death.*

In the event of the death of a Shareholder, the Company shall not unreasonably object or withhold its consent to any transfer by reason of death of the Shareholder, provided that such transfer will not result in or be likely to result in the termination, and will not jeopardize the retention of, the Company's S corporation status.

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