PROPRIETORS AGREEMENT

[INSTRUCTIONS REQUIRED FROM BUSINESS OR ADVISER]

<table>
<tr><td colspan="2">3A. PROFIT DISTRIBUTION POLICY</td></tr>
<tr><td>Item 15

The purpose of this Item is to allow you to specify what differential Salaries, Bonuses and other Remuneration will be payable to the Proprietors and deducted from the Profit of the Business before its Net Profit is determined.

Please let me know if you wish to insert any Policy.</td><td></td></tr>
<tr><td>Silent Partner

This Item is particularly important if there is a Silent Partner.

A Silent Partner is still entitled to share in the Net Profit of the Business, notwithstanding that they might not:

• Work in the Business; or

• Receive a salary.

On the other hand, the other Proprietors do.

Any salary and other remuneration payable to them effectively reduces the Net Profit of the Business (which is distributed proportionately).

Thus, it is desirable that there be agreement on how salaries, bonuses, incentives and other remuneration is calculated.</td><td></td></tr>
<tr><td colspan="2">3B. MINUMUM PERFORMANCE CRITERIA</td></tr>
<tr><td>Item 19

The purpose of this Item is to allow you to specify the minimum performance criteria for each person, the breach of which might constitute:

• A breach of the Agreement; and

• A trigger event for the exercise of an Option to Purchase (or Call Option).

Please let me know if you wish to specify any criteria.</td><td></td></tr>
<tr><td>Silent Partner

If there is a Silent Partner, it’s important that any criteria recognise that they might not apply to the Silent Partner.</td><td></td></tr>
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3C. RESTRICTED ACTIVITIES (RESTRAINTS OF TRADE)	
Item 20 This Item sets out the scope of restraints of trade during and after a Proprietor holds any equity in the Business. The Common Law allows a restraint of trade where a departing Proprietor is paid a Purchase Price for the Equity in the Business Entity that includes an amount attributable to the goodwill value of the Business. However, the restraint must be reasonable in scope (both territory and duration). The current draft contains a default provision. I haven't attempted to customise this restraint to your circumstances. It might not necessarily be reasonable in your circumstances. I will need to speak to you about what is reasonable for you. This will partly take into account where the Business Entity acquires its Clients from.	
3D. SPECIAL RESOLUTIONS AND MAJORITIES	
Item 21 The Agreement gives the Proprietors the ability to set a number of alternative levels of majority for decisions about different important issues. It is particularly important where there are three equal Proprietors to determine what issues: • Must be resolved unanimously; or • May be resolved by a 50.1% majority (e.g., two Proprietors versus the third Proprietor). It's also important that the Proprietors consider the relative importance of different commercial issues. Some might require unanimous approval. Others might require a lesser percentage.	

3E. TAG AND DRAG ALONG RIGHTS

Item 22

The standard IGS Proprietors Agreement contains Pre-emptive Rights that require a Proprietor who wishes to sell their Equity to offer to sell it to the other Proprietors, before they can try to sell it to a Third Party.

The Pre-Emptive Rights are drafted as a Call Option that enables the Purchasers to force the Vendor to sell their Equity on the terms specified in the Agreement.

The standard Agreement also contains "Tag and Drag Along Rights" that might be triggered when a Proprietor wishes to sell their Equity to a Third Party (subject to the other Proprietors' Pre-emptive Rights).

These rights apply if a pre-defined percentage or number of Equity Holders (the Vendors) wish to sell their Equity to a Third Party.

“Tag Along Right”

A Tag Along Right gives the other Equity Holders the right to “tag along” or participate in the sale to the Third Party on the same terms and conditions as the other Vendors.

This prevents them ending up in business with the Third Party against their will.

Example

Assume that a company has four equal shareholders.

Three of the shareholders (totalling 75% of the company) (A,B and C) receive an offer from a Third Party to purchase their shares.

The fourth shareholder (D) declines to exercise its Call Option, which would have enabled it to purchase the 75% of the company that it doesn't already own.

The reason might be that D doesn't wish to borrow the funds necessary to pay the Purchase Price.

Instead, D believes that if the other three shareholders are selling their shares, it would like to as well.

This would give the Third Party ownership of 100% of the company.

The Tag Along Right prevents A, B and C from selling their shares to the Third Party, unless the Third Party purchases D's shares on the same terms.

“Drag Along Right”

A Drag Along Right gives the Vendors the right to “drag along” the other Equity Holders in their sale to the Third Party.

This right forces the other Equity Holders to participate in the sale of 100% of the Equity in the Business to the Third Party, potentially against their will.

The sale would occur on the same terms and conditions as the other Vendors.

Example Assume that a company has four equal shareholders. All four of the shareholders receive an offer from a Third Party to purchase their shares. In this case, the Third Party wants to acquire 100% of the company. Three of the shareholders (totalling 75% of the company) (A, B and C) wish to accept the offer from a Third Party. The fourth shareholder (D) doesn't wish to sell its shares to the Third Party. As a result, it has the power to frustrate a sale to the Third Party. Again, D declines to exercise its Call Option, which would have enabled it to purchase the 75% of the company that it doesn't already own. The Drag Along Right gives A, B and C the right to force D to sell its shares to the Third Party on the same terms. This would give the Third Party ownership of 100% of the company.	
“Threshold Equity Holding” The Agreement needs the parties to specify an agreed Threshold Equity Holding, which will trigger the Tag and Drag Along Rights. For example, it would not be normal for an Equity Holder with only 25% of the Equity to force Equity Holders with 75% of the Equity to sell their Equity against their will. Normally, the Threshold Equity Holding would be at least 50%, so that a majority is forcing a minority to sell their Equity.	
Two Equal Proprietors If there are only two equal Equity Holders, should one Equity Holder with 50% be entitled to force the other Equity Holder to sell to a Third Party? If the parties didn't want the Tag and Drag Along Rights to apply now, they could specify a percentage higher than 50% (e.g., 66%, two-thirds or 75%).	
Three Equal Proprietors Assume there are three equal Equity Holders and you specified a Threshold Equity Holding of 66%. If two out of three Equity Holders wanted to sell their Equity to a Third Party, then: • They could drag the other Equity Holder along in the sale to the Third Party (against the will of the third Equity Holder); and • The other Equity Holder could tag along in the sale of 100% to the Third Party.	
Other Proportions Where there are more Equity Holders or you have different holdings of Equity, it's important to examine each of the various combinations that could or should give rise to the desired threshold.	