



ANNUAL CORPORATE CHECKLIST

There are numerous requirements to operate a business in the State of California. This annual corporate checklist has been prepared to remind private corporations of some of the requirements that should be considered on an annual basis. The information is intended to present a broad guideline and is not exhaustive of the various details required to operate a business in California.

CORPORATE MATTERS

	Complete	N/A
1. Annual Meetings. Have you held meetings for the shareholders and the Board of Directors? Annual meetings of the shareholders and the Board of Directors are required for corporations to elect directors and appoint officers. Holding such meetings is an important step in avoiding the piercing of the corporate veil, where a corporation's limited liability shield may be voided by a court, resulting in the shareholders being held personally liable for its debts and liabilities. Many corporations may use an action by written consent in place of an actual meeting.	<input type="checkbox"/>	<input type="checkbox"/>
2. Statement of Information. Have you filed a Statement of Information? Each California corporation (or foreign corporation authorized to conduct business in California) must file a Statement of Information with the Secretary of State prior to the end of the calendar month in which its original Articles of Incorporation (or original Statement of Designation by Foreign Corporation) were filed. A corporation is required to file this statement even though it may not be actively engaged in business at the time the statement is due. Failure to file a Statement of Information will result in the assessment of a penalty and may result in your company becoming suspended by the State of California. A suspended corporation may not sue or defend a lawsuit, do business in California and contracts made by such entity can be voided at the option of the other party.	<input type="checkbox"/>	<input type="checkbox"/>
3. Permits and Licenses. Does your business have all of the required permits and licenses? Are they current? Certain trades and business are directly regulated by federal, state and local governments. Many cities require a permit to conduct business. Failure to obtain and maintain such permits and licenses can have severe consequences, including fines, penalties and shutting down your business.	<input type="checkbox"/>	<input type="checkbox"/>

CORPORATE MATTERS

Complete N/A

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| 4. | <p>Qualification to Do Business. If you are a California business and have conducted or are considering conducting business in states outside of the State of California, you should determine whether it is necessary to register to do business in such states. Foreign corporations must make the same determination regarding operations in California. A company not qualified to do business in a state in which it conducts business may be subject to serious restrictions, including a prohibition from suing or defending a lawsuit, fines, penalties, personal liability for officers or agents and contracts being voided at the option of the other party.</p> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. | <p>Authorized Shares. Have you issued additional shares or options in the last year? The number of shares authorized to be issued by a corporation is set forth in its Articles of Incorporation. Likewise the number of options to be issued under equity plans are limited by such plans. If you have issued shares, options or other equity awards during the year you should confirm that you have not issued more shares than have been authorized. Even if you have not exceeded the limit, you may consider increasing such limits should your business plan call for future issuances. A current capitalization table showing all outstanding securities may be useful.</p> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. | <p>Stock Valuation. Have you obtained a recent independent appraisal of the value of your stock? Some shareholder buy/sell agreements require that the company obtain a yearly valuation of the company's stock in the event a buy/sell event occurs. Additionally, appraisals by an independent appraiser for purpose of complying with Section 409A of the Internal Revenue Code are only valid if made within 12 months of the date for which the stock value is being determined. Failure to obtain such a valuation could result in shareholder disputes or unintended tax consequences to employees receiving equity awards.</p> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. | <p>Number of Directors. Have you appointed the proper number of directors? California law generally provides that the minimum number of directors of a corporation shall not be less than three, except when there are two or less shareholders, in which case the number may be less depending on the circumstances. Ensure you have the proper number of directors so that your corporate actions have been validly approved.</p> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. | <p>Number of Shareholders. Do you know how many shareholders you have? The number of shareholders your company has may have an important impact on business. Companies that have \$10 million in assets and 500 shareholders of record are required to register with the Securities and Exchange Commission ("SEC") and are subject, among other things, to the SEC's reporting requirements. Additionally, companies with more than 100 shareholders are ineligible for S Corporation Status. See also "S Corporation Status" below.</p> | <input type="checkbox"/> | <input type="checkbox"/> |

TAX MATTERS

- | | Complete | N/A |
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| 9. Annual Federal Tax Return. Have you filed your tax return? Federal corporate returns for C Corporations are due the fifteenth day of the third month after the company's fiscal year ends. If your business is an S Corporation, tax returns are due on the fifteenth day of the fourth month and income and losses are passed directly to the shareholders through their personal income tax returns. Failure to timely file tax returns can result in fines, penalties and interest. | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. State Franchise Tax Returns. States require companies conducting business within the state to pay franchise taxes and file a state franchise tax return. Some states enforce franchise tax requirements against any company that sells into the state, even via the internet. Failure to pay franchise taxes may result in your company becoming suspended in that state. If you are conducting business outside your state of formation, you should determine whether it is necessary to file a franchise tax return in more than one state. | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. State Board of Equalization Return. Sales and use tax applies to the sale or use of tangible personal property in California. Most retailers, even occasional sellers of tangible goods, should register to collect sales or use tax. Failure to timely file sales and use taxes can result in taxes, penalties and interest. | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. S Corporation Status. Have you properly maintained your S Corporation status? S corporation status automatically terminates if any event occurs that would have prohibited the corporation from making its initial S Corporation election, including (i) transferring stock to ineligible shareholders (such as, non-resident aliens or ineligible trusts), (ii) issuing stock to more than 100 shareholders, or (iii) excessive passive income in three consecutive tax years. Inadvertent termination of S Corporation status that is not cured will turn the corporation into a C corporation, as of the date of such event, resulting in double taxation. If not caught quickly, the potential tax liability can be substantial. | <input type="checkbox"/> | <input type="checkbox"/> |
| 13. Change in Ownership of Entity. Has a new person or entity acquired a controlling interest (more than 50% ownership) in your entity through one or more transactions (a "Change of Control")? Have the original owners of your entity cumulatively transferred more than 50% of the ownership of the entity in one or more transactions (a "Change in Ownership")? If a Change of Control or Change of Ownership occurs with respect to an entity that owns California real property, a Statement of Change in Control and Ownership of Legal Entities must be filed with the Board of Equalization of the State of California. The Statement must be filed within 45 days from the date the transfer of ownership interests resulting in a Change of Control or Change of Ownership occurs. Failure to file the required Statement in a timely manner will result in the assessment of a penalty equal to 10% of the property tax on the California real property owned by the entity. | <input type="checkbox"/> | <input type="checkbox"/> |

EMPLOYMENT MATTERS

	Complete	N/A
<p>14. Number of employees. Have you hired additional employees in the last year? Employers become subject to an increasing number of state and federal employment laws as the number of the company’s employees increases. For example, employers with (i) 5 or more employees are subject to Pregnancy Disability Leave and the Americans with Disabilities Act (and related state law); (ii) 25 or more employees triggers various state protections (including time off work for drug/alcohol rehabilitation and allowing parents to take certain time off to participate in school activities (K-12); and (iii) 50 or more employees triggers the Federal Family and Medical Leave Act and California Family Rights Act of 1991.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>15. Employee Handbook. Are you overstating your responsibilities or obligations in your employee handbook? Does your handbook include policies relating to new statutes (i.e., requiring employees to use hands-free cellular telephone devices when are driving on work-related business). Employers should periodically review their handbooks for full compliance with current laws and to provide the best protection against liability.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>16. Sexual Harassment Training. Have you held mandatory sexual harassment training? California law requires that supervisors of companies with 50 or more employees participate in a two-hour sexual harassment related training every two years. While there is no “penalty” for not complying, there are several negative consequences for not doing so. For example, the Fair Employment and Housing Act makes it an unlawful practice for an employer to fail to take “all reasonable steps” necessary to prevent harassment from occurring. Providing the required training is one step in meeting this requirement.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>17. Worker’s Compensation Insurance. Do you have sufficient workers’ compensation insurance? California law requires employers to have workers’ compensation insurance if they have even one employee. Failure to maintain workers’ compensation coverage is a criminal offense punishable by either a fine of up to \$10,000 or imprisonment in the county jail for up to one year, or both. The state may also issue penalties of up to \$100,000 against uninsured employers.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>18. Audit Relating to Potential Wage and Hour Issues. Are you complying with California labor law? The California Labor Code and corresponding rules and regulations are one of the toughest collections of law with which to comply. Many violations of California law come with steep penalties and, generally, attorney fees. An audit of the company's policies and procedures regarding timekeeping records, employees' meal/rest periods, compensation issues (time, record, and amount), and classification of employees (whether they're entitled to overtime or are improperly classified as independent contractors) would assist you in determining whether you are in compliance and help prevent future lawsuits.</p>	<input type="checkbox"/>	<input type="checkbox"/>

INTELLECTUAL PROPERTY MATTERS

Complete **N/A**

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| 19. New Trademarks. Has the company begun to use any new names, marks, logos, trade dress for which trademark registration has not been sought? If so, the company should consider filing for trademark protection. Failure to file for trademark registration in a timely manner could allow another party to file for the mark and expose the company to potential litigation, either to fight for its marks or to defend an infringement claim that may be brought by a registrant of the mark or a confusingly similar mark. | <input type="checkbox"/> | <input type="checkbox"/> |
| 20. Intent to Use Trademarks. Has the company begun to use any new names, marks, logos or trade dress for which an Intent to Use trademark application has been previously filed? If so, the company should file samples of the use with the USPTO to demonstrate usage in commerce. | <input type="checkbox"/> | <input type="checkbox"/> |
| 21. New Patentable Technology. Has the company developed any new technologies, ideas, materials, processes and other information which could be the subject of a patent application? If so, the company should consider applying for immediate patent protection. Public disclosure of intellectual property before filing a patent application can prevent the company from obtaining foreign patent protection later and limit the time you have to file in the U.S. If you have patentable technology, ensure it is protected before you show it to anyone. | <input type="checkbox"/> | <input type="checkbox"/> |
| 22. Registration Fees. Have all patent or trademark registration fees or other maintenance obligations been complied with? Failure to pay such fees and/or comply with maintenance obligations can result in abandonment of the registration and loss of all related intellectual property rights. Reinstatement, when possible, can be difficult and expensive. | <input type="checkbox"/> | <input type="checkbox"/> |
| 23. Technology Assignments. Have any employees, contractors or other third parties developed or made any contribution towards any new technologies, ideas, materials, processes and other information of the company? If so, have agreements assigning all intellectual property rights to the company been executed by such parties? Failure to obtain such assignments can result in unclear title to the company's intellectual property assets, an issue that may expose the company to potential lawsuits and scare off potential investors and acquirers. | <input type="checkbox"/> | <input type="checkbox"/> |
| 24. License Compliance. Is the company in compliance with all current license agreements or any other agreement having an impact on the company's technologies and intellectual property? Failure to comply with such agreements could cause the company to be in breach and jeopardize the company's ability to continue using the underlying licensed technology. | <input type="checkbox"/> | <input type="checkbox"/> |

INTELLECTUAL PROPERTY MATTERS

	Complete	N/A
25. Privacy Policies. Do you have an up to date privacy policy? California law requires operators of commercial web sites or online services that collect personal information on California residents through a web site to conspicuously post a privacy policy on the site and to comply with its policy. The privacy policy must, among other things, identify the categories of personally identifiable information collected about site visitors and the categories of third parties with whom the operator may share the information.	<input type="checkbox"/>	<input type="checkbox"/>

REAL ESTATE AND LEASING MATTERS

	Complete	N/A
26. Rental Adjustments. Are you subject to any applicable rental adjustments under your lease? Rental adjustments typically occur on the anniversary of the commencement date of the lease or every few years after the commencement date of the lease. Rental adjustments should be factored in when budgeting for the new year.	<input type="checkbox"/>	<input type="checkbox"/>
27. Size of Space. Does the company have too much space or insufficient space? You may be able to negotiate adjustments in your lease to provide you with the necessary space.	<input type="checkbox"/>	<input type="checkbox"/>
28. Property Insurance Carried as an Owner. If your lease requires you to carry property insurance, or you own your building, are you carrying adequate amounts of property insurance? If your building is damaged or destroyed, you may not have adequate insurance for the repair or reconstruction of the building, exposing your company to pay for the shortfall.	<input type="checkbox"/>	<input type="checkbox"/>
29. Rental Deadlines. Are there any upcoming deadlines for extension options or rights of first refusal for extending the lease term, renting additional space or purchasing your premises? If these dates are missed, typically, the rights expire.	<input type="checkbox"/>	<input type="checkbox"/>
30. Rental Competitors. Has your landlord rented space to a competitive business in violation of an exclusive use provision in your lease? If so, you may have remedies in your lease, such as a reduction in rent or a right to terminate the lease.	<input type="checkbox"/>	<input type="checkbox"/>
31. Liability Insurance. If you are leasing space, are you carrying adequate liability insurance so that you are not in violation of the terms of the lease? If you own your premises, are you carrying adequate liability insurance so that you are not in violation of the CC&RS or any other recorded documents? Carrying insufficient liability insurance may expose you to the negligent actions of your employees.	<input type="checkbox"/>	<input type="checkbox"/>

INTELLECTUAL PROPERTY MATTERS

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|---|--------------------------|--------------------------|
| 32. Operating Expense Statement. If you are leasing space, have you reviewed the year end statement for annual operating expenses and considered requesting an audit if there are discrepancies? Some leases permit such an audit to be performed. Operating expenses can be cumbersome and confusing and you may be paying an amount in excess of what your lease requires. | <input type="checkbox"/> | <input type="checkbox"/> |
| 33. Landlord Property Insurance. If your lease requires the landlord to maintain property insurance, do you know whether your landlord is maintaining adequate insurance? If your building is damaged or destroyed and your landlord is required to repair or reconstruct the building, your landlord may not have adequate insurance coverage to make such repairs, exposing your business to potential inconvenience or even shutdown. | <input type="checkbox"/> | <input type="checkbox"/> |

TRUSTS, ESTATES AND SUCCESSION PLANNING

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| 34. Business Succession Planning. Have you and your shareholders properly planned for the succession of control and management of your business in the event of divorce, disability or death of a shareholder or principal of your business? Failure to properly plan for the succession of your business can cause considerable difficulty for the affected shareholder, the affected shareholder's family and the company itself if any of these events should occur. A shareholders' agreement may be prudent. | <input type="checkbox"/> | <input type="checkbox"/> |
| 35. Gifts of Stock/Shares. Have any of your shareholders made a gift of stock during the calendar year? If so, the gifting shareholder may need to file a Federal gift tax return. Federal gift tax returns are due at the time individual income tax returns are required to be filed. | <input type="checkbox"/> | <input type="checkbox"/> |
| 36. Title to Stock/Shares of Individual Shareholders. For individual shareholders who are California residents, do they hold title to their shares in the name of their trust? The failure to have shares titled in the name of a shareholder's trust and to conduct proper estate planning could result in a formal probate administration being required at the shareholder's death. Formal probate administration presents additional costs and delay for the shareholder's family and often creates administrative difficulties for the company as well. If your company is an S Corporation, particular provisions must be included in any trust holding title to S Corporation shares to be sure the trust is a qualified S Corporation shareholder (see "S Corporation Status" above). | <input type="checkbox"/> | <input type="checkbox"/> |

INTELLECTUAL PROPERTY MATTERS

- | | Complete | N/A |
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| 37. Key Man Insurance/Succession Insurance. Do you have corporate-owned life insurance, either to provide a cash payout at the death of the primary shareholder or other “key man” or to fund a redemption of the shares of the surviving family of a deceased shareholder? If so, it is important to provide for timely premium payments or financing and maintain the policies properly in force, and correctly account for the policies as a corporate asset. This also applies to life insurance owned by shareholders but financed in part through the corporation on a split-dollar basis. | <input type="checkbox"/> | <input type="checkbox"/> |

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Luce Forward attorneys work closely with a broad spectrum of business clients to help them achieve their financial objectives. Should you have any questions regarding this annual corporate checklist or the application of the rules or guidelines described above, please feel free to contact any of the Luce Forward attorneys listed below.

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This annual corporate checklist has been prepared for informational purposes only. Nothing herein constitutes legal advice or creates any attorney-client relationship, and Luce, Forward, Hamilton and Scripps LLP gives no opinion regarding the applicability of federal or California laws to any particular corporation. Whether federal and state laws and regulations affect any corporation will depend on the particular facts circumstances surrounding that corporation. Further, laws change from time-to-time as the laws and rules promulgated thereunder are revised and amended. Consequently, the information set forth herein should be reviewed as of the date hereof.

ABOUT LUCE FORWARD

With over 150 attorneys practicing in our six California offices, Luce, Forward, Hamilton & Scripps LLP is a full-service law firm with a reputation for helping clients achieve their goals for more than 135 years.

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Business / Complex Litigation

Appellate
First Amendment / Media
Intellectual Property
National Foreclosure Litigation & Investigation
National Loan Repurchase Litigation Team
Product Liability & Warranty
White Collar Criminal Defense

Business / Corporate

Action Sports
Auto Dealers
Aviation
e-Business & Internet
Financial Institutions
Franchise & Distribution
International Business
Mergers & Acquisitions
Nonprofit Corporations
Public Finance
Securities
Taxation
Technology / Intellectual Property

Family Wealth & Exempt Organizations

Business Succession Planning
Fiduciary Litigation
International Estate Planning
Nonprofit Organizations

Labor & Employment

Employee Benefits & Executive Compensation

Real Estate Litigation

Construction Litigation
Eminent Domain & Valuation
Eminent Domain & Valuation - Landowners
Eminent Domain & Valuation - Public Agencies

Real Estate Transactions

Acquisitions & Dispositions
Affordable Housing
Common Interest Development
Construction Transactions
Distressed Real Estate Asset Group
Hospitality
Land Use
Leasing
Real Estate Finance

Environmental

Climate Change, Renewable Energy &
Sustainable Technology
Energy & Regulatory

Commercial, Finance & Insolvency

Insurance Litigation

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