



## LAW ADVOCATE GROUP, LLP

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### Doron F. Eghbali Corporate Law

#### [Rights of Shareholders in a CA Corporation](#)

Monday, April 15, 2013 by [Doron F. Eghbali](#)

As a result of broader judicial and legislative scrutiny of board of directors, the laws relating to shareholders' rights and responsibilities have changed. This article explores the rights and responsibilities of shareholders to obtain corporate information. To this end, we analyze, to some extent, rights and responsibilities of "majority" and "minority" shareholders along with the definition of information obtainable, in this context.

#### **GENERAL LAW**

Generally, all shareholders of a corporation are entitled to certain corporate information depending on the size of the corporation and the size of the shareholder's holding in the corporation. To obtain some corporate information by some shareholders, the shareholder must state a purpose reasonably related to such interest in the corporation.

#### **WHEN "REASONABLY RELATED PURPOSE TO SUCH INTEREST" NOT REQUIRED**

- Notwithstanding the previous section on general law, **all** shareholders irrespective of their corporation holdings are entitled to receive an annual report (CA Corporations Code Section 1501). Nonetheless, in a corporation fewer than 100 shareholders, this requirement may be waived in the bylaws. In such a case, the shareholders are entitled to receive a financial report akin to what an annual report should entail.
- Notwithstanding the previous section on general law, **all** shareholders irrespective of their corporation holdings are entitled to receive the corporation's bylaws (CA Corporations Code Section 213).
- Notwithstanding the previous section on general law, **all** shareholders irrespective of their corporation holdings are entitled to receive the results of vote at a regular, special or annual meeting (CA Corporations Code Sections 1509-1511).



- Notwithstanding the previous section on general law, shareholders owning individually OR in the aggregate **at least 5 percent of corporate shares** are entitled to obtain and copy shareholders lists and records (CA Corporation Code Section 1600) and quarterly financial information (CA Corporations Code Section 1501(c)-(d)).

### **STATING REASONABLE RELATED PURPOSE TO SUCH INTEREST *REQUIRED***

Other than the situations delineated above, all other shareholders are required to state *IN WRITING* a reasonable relationship between their interest in the corporation and the purpose of their inspection of books and records. In fact, if such relationship purpose of inspection of records and books is stated, then such shareholders are entitled to inspect (CA Corporations Code Sections 1600 and 1601):

- Shareholder' lists and Records
- Minutes of Books and Records
- Accounting Books

### **WHAT IS "REASONABLE RELATED PURPOSE TO SHAREHOLDER'S INTEREST"?**

Now, the question is what is the definition of "reasonable related purpose to shareholder's interest"? The courts are unfortunately not clear on the answer and the legislation is not clear as to the time frame during which the written demand should be made on the corporation. Hence, the corporation is afforded some time to intelligently evaluate the "reasonable purpose" and ascertain the next course of action. If the corporation decides to withhold the information to a shareholder owning less than 5% of shares in the corporation, then the next venue will probably be courts.

### **OTHER SALIENT RULES**

- The statutory right of shareholders to inspect and copy corporate books CANNOT be limited by articles of incorporation or bylaws. (CA Corporations Code 1600(d)).
- The copies of corporate books, under this section, could be made by person, attorney or agent. (CA Corporations Code 1600(d)).

### **WHAT IS AN ANNUAL REPORT?**

An Annual Report encompasses the following (CA Corporations Code Section 1501(a)):

- Income Statement; AND
- Statement of Cash Flows for the Applicable Fiscal Year



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## SALIENT NOTE

This article NEITHER supplants NOR supplements the breadth or depth of such rarefied topic. In fact, this article ONLY provides a rudimentary synopsis of such esoteric subject matter.

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