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MINORITY SHAREHOLDER RIGHTS

Since a minority shareholder is not in control of a corporation, the officers and directors of the corporation can take most corporate actions without the approval of the minority shareholder. This Newsletter shall discuss the various rights of minority shareholders in a California corporation, and some of the ways a minority shareholder can protect his or her interests.

1. *Inspection Rights*. All shareholders have the right to inspect and copy the record of shareholders upon written demand, for a purpose reasonably related to the holder's interest. The accounting books and records and minutes of proceedings of the shareholders and board of directors are open for inspection by any shareholder upon written demand at any reasonable time during normal business hours for a purpose reasonably related to the holder's interests. Shareholders who hold 5% or more of the shares of the corporation have the right, on 5 business days' notice, to inspect and copy the record of shareholders, and to obtain a list of the names, addresses and share holdings of the corporation's voting shareholders.

2. *Voting Rights*. All shareholders have the right to vote for the directors of the corporation; however, unless a shareholder elects to cumulate his or her votes, the majority shareholder will be able to elect all of the directors, leaving the minority shareholder without representation on the Board of Directors. Cumulative voting allows a shareholder to give one candidate a number of votes equal to the number of directors to be elected, multiplied by the number of votes to which the shareholder is entitled. For example, a 26% shareholder would be allowed to elect 1 of 4 directors under cumulative voting.

3. *Proxies*. A minority shareholder may obtain the right to vote the shares of another shareholder by obtaining a proxy from the other shareholder. A proxy is valid for 11 months unless it states otherwise. Personal attendance by the shareholder and voting at a meeting revokes the proxy of that shareholder for that meeting.

4. *Voting Trusts*. In a voting trust, two or more of the shareholders transfer their shares to a trust, and appoint a trustee who has the power to vote the shares. The shareholders receive a trust certificate protecting their other rights as shareholders. A voting trust can have the effect of increasing the voting power of minority shareholders by making sure the shareholders vote as a unit.

5. *Right to Dissolve the Corporation*. A shareholder or shareholders who hold shares representing not less than 33-1/3 of the total number of outstanding common shares may petition the court for involuntary dissolution of the corporation if (a) the business has been abandoned for more than one year, (b) there is an even number of directors who cannot agree so the business cannot be conducted to advantage and the holders of voting shares are so divided that they cannot elect a board of directors of an uneven number, (c) there is internal dissension and two or more factions of directors are deadlocked so that its business can no longer be conducted with advantage to its shareholders, (d) the persons in control of the corporation have been guilty of persistent and pervasive fraud, mismanagement or abuse or authority or persistent unfairness toward any shareholders, or (e) liquidation is reasonably necessary for the protection of any shareholder.

6. *Buy-Sell Agreements*. The shareholders of a corporation may voluntarily enter into an agreement which provides for a buy-out of a shareholders' shares upon death, disability, or termination of employment. Depending on whether the purchase of the shares is optional or mandatory, and how the price of the shares is determined, a minority shareholder may protect his or her interest in the corporation upon the occurrence of the foregoing events.

7. *Shareholder Agreements*. If the corporation is a statutory "close corporation", the shareholders of a corporation may enter into a shareholder agreement which permits the minority shareholder more direct control over the management of the business of the corporation. For example, the shareholder agreement may require a super-majority or unanimous vote of the shareholders on specified issues.

8. *Classification of Shares*. The corporation may issue both common and preferred stock, in which event the minority shareholder may receive preferred stock which has special voting, dividend and liquidation rights.

The proper method of protecting minority shareholder rights differs depending upon the number of shareholders, the number of minority shareholders, the value of the minority shareholders to the corporation as employees, and many other factors. Each situation must be separately analyzed to determine the most appropriate method or methods of protecting minority shareholder rights.