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PRACTICE GUIDE · CORPORATE GOVERNANCE

Shareholder and Member Disputes

Grand Park Law Group · 2026



A. **Books-and-Records Inspection (§§ 1601, 1602)**

Cal. Corp. Code § 1601 gives any shareholder, on written demand stating a purpose **reasonably related to such holder's interests as a shareholder**, the right to inspect and copy the corporation's accounting books, records, and minutes of board, committee, and shareholder meetings. The standard is significantly more permissive than Delaware's "proper purpose" test under DGCL § 220 — California shifts the burden of unreasonableness to the corporation, and courts have recognized investigation of suspected mismanagement, valuation of shares, and communication with co-shareholders as proper purposes.

Cal. Corp. Code § 1602 is even broader for **directors**, granting "absolute" inspection rights over all corporate books, records, and properties, "and to inspect the physical properties of the corporation of which such person is a director." A corporation cannot withhold privileged or sensitive material from a sitting director under § 1602 absent a properly grounded showing that the director will misuse the information — for example, in pending litigation where the director is the adverse party. Petitions to enforce inspection rights proceed by writ of mandate and routinely yield attorneys' fees to a prevailing shareholder under § 1604.

B. **Direct vs. Derivative Claims (Schuster, Tooley/Bader)**

Whether a claim must be pled derivatively or may be brought directly turns on whether the injury was suffered by the corporation (and only indirectly by the shareholder) or by the shareholder qua shareholder. California's modern test largely converges with Delaware's *Tooley* framework: who suffered the alleged harm, and who would receive the recovery? *Schuster v. Gardner* (2005) 127

Cal.App.4th 305 confirmed that diminution-in-share-value claims tied to mismanagement belong to the corporation and must be pursued derivatively, expressly adopting Delaware's *Tooley* framework as the California test.

The line is consequential in close-corporation settings, where direct claims are more frequently allowed. *Jones v. Ahmanson* itself permitted a direct claim by minority shareholders against the controlling group for capturing a unique transactional opportunity. Where the alleged wrong is specific to the plaintiff (e.g., breach of a buy-sell covenant, denial of inspection, oppressive conduct directed at the minority), direct standing typically exists. Where the alleged wrong is corporate waste, mismanagement, or self-dealing harming all shareholders pro rata, it is derivative. Plaintiffs often plead in the alternative; California decisions including *Lazar v. Hertz Corp.* (1983) 143 Cal.App.3d 128 (consumer-class certification) more generally illustrate that multiple representative theories — class, direct, and derivative — may be advanced together where each is independently supportable.

C. Minority Oppression and Freeze-Out

California recognizes minority oppression as a basis for involuntary dissolution under § 1800(b)(4)–(5) — "persistent and pervasive fraud, mismanagement or abuse of authority" or "persistent unfairness" toward complaining shareholders. Common freeze-out patterns in California closely-held corporations include: (i) termination of the minority's employment combined with cessation of distributions (the "freeze and starve" pattern); (ii) self-dealing transactions priced below fair market value; (iii) dilutive equity issuances at below-market prices to insiders or affiliates; and (iv) refusal to honor buy-sell triggers. *Ahmanson* duties supply the substantive standard, while § 1800 supplies the remedial gateway, leading directly to the § 2000 buyout described below.

Stephenson v. Drever, 16 Cal.4th 1167, deserves particular attention in any case where employment and ownership intersect: the Supreme Court held that a closely-held corporation owed continuing fiduciary duties of good faith and fair dealing to a former employee-shareholder whose stock was subject to mandatory repurchase, and that those duties survived the termination of the employment relationship until the buyout closed.

D. Statutory Buyout in Lieu of Dissolution (§ 2000, § 17707.03)

Cal. Corp. Code § 2000 gives the corporation, or shareholders holding 50% or more of the voting power, the right to **avoid involuntary dissolution** by purchasing the moving shareholder's shares at "fair value" determined by appraisers appointed by the court if the parties cannot agree. The buyout is elected by filing a stay motion within the time set by the court and posting bond. The statute creates an asymmetric leverage profile: a minority plaintiff who files for dissolution under § 1800 frequently triggers a buyout election by the majority, converting the dispute into a valuation contest.

Cal. Corp. Code § 17707.03 provides the analogous mechanism for LLCs. Subdivision (c) authorizes the LLC or non-dissolving members to purchase the dissolving member's interest at fair value, with the court appointing appraisers if the parties cannot agree on price. The statutory

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grounds for judicial dissolution under § 17707.03(b) include manager misconduct, persistent unfairness, and deadlock — the same substantive concerns that animate § 1800 in the corporate context.

E. Fair Value Determination Without Discounts

The most consequential valuation rule in California closely-held practice is the prohibition on minority and marketability discounts in § 2000 (and § 17707.03) buyouts. *Brown v. Allied Corrugated Box Co.* (1979) 91 Cal.App.3d 477, held that "fair value" under § 2000 means a pro rata share of the enterprise's value as a going concern, without applying a minority discount or a discount for lack of marketability. *Brown* reasoned that allowing such discounts in a forced buyout context would reward the majority's coercive conduct and unjustly enrich the controllers at the minority's expense. Courts have consistently extended *Brown* to § 17707.03 LLC buyouts. The result, in practice: a minority owner with strong oppression facts can credibly demand a percentage-of-enterprise-value payout that would be deeply discounted in a willing-buyer/willing-seller transaction.

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