

# Minority Shareholders - Fighting The Man

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*Article by: Richard Chapo*

Investing in a corporate entity is fairly standard practice in our society. Problems arise when you own a small percentage of shares, but disagree with the direction the majority shareholders are taking the entity. As a minority shareholder, do you have any way to fight "the man", to wit, the majority shareholders?

## Minority Shareholders

A couple of your friends come up with a great business idea, but need start-up capital. You agree to provide \$10,000 for 30 percent of the shares. A corporation is formed, but the friends take the business in a direction you don't like. What can you do?

The first step for a minority shareholder is to look at the bylaws of the corporation. If careful planning was taken when forming an entity, there should be clauses that detail your rights to object. If the corporation was formed through one of those \$99 online sites, well...I wouldn't hold out much hope. Heck, the entity may not even have bylaws!

If no relief can be found in the bylaws, a minority shareholder may be saved from themselves by their state. In every state, you will find legal codes laying out the rights of a "dissenting" shareholder. The laws are typically found in the "corporate" or "civil" codes, depending upon the state. Simply go to your local law library and ask a librarian for help.

Each state's dissenter laws are going to be slightly different. Despite these differences, you should be able to find provisions that give a minority shareholder the right to throw a fit...err, seek justice. Generally, the dissenter rights are going to include some mechanism whereby you can force the corporation to buy back your shares.

While a "buy back" may sound great, it almost always lead to litigation between the majority and minority shareholders. The litigation typically focuses on a nasty argument over the value of the shares.

You, of course, are of the opinion the shares have increased in value. Your former friend have an opposite view. Since it is unlikely the stock is traded publicly, a valuation brawl ensues whereby appraisers are brought in, attorneys argue and judges roll their eyes in exasperation. In the end, you are awarded \$15,000, pay your attorney \$20,000 and lose two friends.

## In Closing

If you are a minority shareholder, make sure there is some provision in the bylaws to protect you. If you don't, you could be in for a very rough ride. Richard Chapo is with <http://www.sandiegobusinesslawfirm.com> - providing legal services to San Diego businesses.