

The California Corporate Disclosure Act

In light of all the recent attention being spent on the implications on corporate governance and disclosure, California passed its own disclosure reform law on September 28, 2002. The California Corporate Disclosure Act (the "CCDA") requires all publicly traded companies which are incorporated or qualified to do business in California to disclose, on an annual statement filed with the Secretary of State, information about their auditors, officers, directors and violations. As a result of the CCDA, companies may want to re-evaluate their connections with the State to determine whether, in light of the added expense and disclosures, they should continue as a California corporation or as a company qualified to do business therein.

Previously, every two years, companies incorporated or qualified to do business in California were required to file statements disclosing routine information such as: list of directors and officers; principal address; type of business conducted; and agent for service of process. Under the CCDA, the statement must be filed annually. In addition, publicly traded companies (which includes foreign or domestic companies who are listed with the NYSE, NASDAQ or AMEX or traded in the pink sheets) must disclose the following information:

- The name of the independent auditor, a description of any other services it has provided in the previous 24 months and the date of the last report prepared by the auditor
- The annual compensation paid to each director and officer
- A description of loans made to directors in the past 24 months
- Whether bankruptcy has been filed by the company or any of its officers or directors within the past 10 years
- Whether any director or officer has been convicted of fraud during the past 10 years and
- Whether the company was liable for a violation of any federal securities law or California securities or banking law in the past 10 years

The CCDA requires that a company pay a \$5 disclosure fee with each statement. Half of this fee will be used to implement an online database by the end of 2004, which will provide public access to the filed statements. The other half will be used for the establishment of the Victims of Corporate Fraud Compensation Fund.