

Inspection of Company Books and Records: What's Allowed, Required?

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Whether you're a member of an LLC or a shareholder of a corporation, North Carolina law provides the right to inspect the books and records of the company upon adequate demand and notice. However, the procedures for doing so, and the information you are entitled to, differ slightly under the North Carolina LLC Act and the North Carolina Business Corporations Act.

LLC Member Information Rights

An LLC member may inspect and copy the following LLC records:

1. Articles of Organization and any other writing constituting all or part of the operating agreement, including any executed power of attorney under which all or part of the operating agreement was adopted, for the preceding four years;
2. Either, at the LLC's election, a copy of the LLC's four preceding federal, state and local income tax returns, or financial statements that pertain to any of the LLC's preceding four fiscal years;
3. A list of the current LLC interest owners, their status as members or interest owners, and the date on which they became an owner;
4. Information from which the member's, and each of the other interest owners', capital interest may be ascertained, including the amount of money and value of property/services contributed by each interest owner; and (perhaps the most broad provision)
5. Information from which the status of the business and financial condition of the LLC may be ascertained.

The LLC member must sign and deliver a written notice of exercise to the LLC at least seven days before the date on which the inspection is to take place, and must identify which documents/records to be inspected as well as the purpose or intended use of the information to be gained. The inspection must take place at either the LLC's principal office, or another location selected by the LLC. The LLC may also require the member to pay its costs related to the inspection.

Shareholder Inspection Rights

A qualified shareholder (one who has been a shareholder for at least six months preceding his demand or is the holder of at least five percent (5%) of the corporation's outstanding shares of any class) may make a similar demand on the corporation and is entitled to inspect the

following corporate records:

1. Records of any final action taken with or without a meeting by the board of directors, minutes of any meeting of the shareholders and records of action taken by the shareholders without a meeting;
2. Accounting records of the corporation; and
3. The record of shareholders.

The corporation may refuse to provide any accounting records with respect to any matter which the corporation determines in good faith may, if disclosed, adversely affect the corporation in the conduct of its business, or may constitute nonpublic information. The shareholder must deliver a written notice to the corporation at least five days before the proposed inspection date, and he may only inspect the records if: (1) his demand is made in good faith and for a proper purpose; (2) he describes with reasonable particularity his purpose and the records he desires to inspect; and (3) the records are directly connected with his purpose.

If the LLC or corporation refuses to allow for the inspection and copying of all or part of the records requested, the member or shareholder's rights may need to be enforced judicially. It is important to consult a business litigation attorney when considering whether or not to make formal inspection demands on your company, in order to adequately evaluate your options.