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[Corporate Lexicon: A Legal Guide to Corporate Parlance](#)

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Shares, classes and series of shares, common shares, preferred shares, convertible shares and options are only among some of the vocabulary promulgated in corporate lexicon. Let us further enlighten ourselves about such corporate parlance.

SHARES

Shares are referred to proprietary interests of a corporation divided into units and authorized by the corporations Articles of Incorporation. Articles of Incorporation must specify the total number of shares a corporation is authorized to issue. Upon issuance of shares by Corporation the record holder of such shares becomes the shareholder.

CLASS OF SHARES OR SERIES OF SHARES OR BOTH

Corporation could issue shares in disparate classes or series *or* could issue shares in both classes *and* series. Shares belonging to one class all **MUST** share similar attributes such as rights, privileges, preferences and limitations, except with the proviso if the shares are further divided into series.

Nonetheless, if a class of share is further divided into series, then shares of different series within the same class all differ only in one attribute such as time of redemption or amount of preference. A **SERIES** itself is comprised of shares with similar rights, privileges, preferences and restrictions.

If you think of corporation as a tree and shares as the branches and series as leaves, then the tree could have just branches and no leaves and could have branches of different sizes and leaves of different sizes and color.

The attributes attaching to each class or series are the ones delineated in the Articles of Organization.



RIGHTS AND RESTRICTIONS OF A CLASS OR SERIES

1. RIGHTS

Rights are referred to an advantage a security holder obtains solely for owning a particular share on a routine and repeating basis. For instance, voting for shares or receiving dividends when available are prime examples of rights.

2. PRIVILEGES

Privileges are referred to rights:

- Not Critical to the Corporation to Keep the Corporate Machine Running
- Not Conferred on all Security Holders
- Not Required to Be Exercised
- Not Required to Be Exercised with Other Security Holders

For instance, the ability of a security holder to change the nature of security upon demand is a Privilege. Another example could be the Privilege to mandate the corporation to redeem its stocks. The beauty of Privileges is the security holder of such Privilege may exercise at a time independent of other shareholders based on their own financial aspirations or opportunities.

3. RESTRICTIONS

As Restrictions denote, such characteristic restricts security holder's ability to exercise Right or privilege. Limitations on transferring shares or voting are the most common. Restrictions could be imposed by Articles of Incorporation, the terms of securities or California law.

COMMON SHARES

Common shares are referred to shares with no preference over any other shares, technically. This means, technically, holders of Common Shares have no preferences with any other shares over distribution of assets on liquidation or payment of dividends. Nevertheless, it does not mean Common Shares does not possess other preferences other than the ones delineated here. However, the lack of two salient corporate attributes on distribution upon liquidation and payment of dividends make Common Shares the riskiest amongst such types of security.

PREFERRED SHARES

Preferred Shares, in CA, are referred to any other shares other than Common Shares. Therefore, Preferred Shares in California must have some type of preference over other shares with respect to distribution upon liquidation and payment of dividends.

Typically, Preferred Shares possess both such delineated preferences on distribution upon liquidation and payment of dividends. Often, dividend is for fixed amount or percentage annually.



Usually, right to dividends is cumulative for holders of Preferred Shares i.e. if dividends are not declared or paid, such dividends accumulate until they are paid to Preferred Shareholders before distribution to Common Shareholders.

CONVERTIBLE SHARES

Convertible shares are convertible into any shares of any class or series. Nonetheless, there might be restrictions on such conversions such as the prescribed time of conversion or upon happening of one or more event or terms and conditions as set forth in the Articles of Incorporation.

OPTIONS

Option is a vehicle to purchase shares at a later date in accordance with the terms of the controlling documents. Options could accompany sale, transfer, subscription of shares or other securities or could be granted independent of any such events. Options could be transferable or non-transferable.

SALIENT CAVEAT

This article NEITHER supplants NOR supplements the esoteric breadth of the subject discussed here. In fact, this article, ONLY, provides a rudimentary restricted analysis of such salient rarefied legal topic.

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