



MEMO

To: Board of Directors
From: Company Secretary
Subject: **NEGATIVE SHARE PRICE**

As Company Secretary, I have been asked the question: can I pay someone money to take my shares in the company off my hands – effectively resulting in a negative share price.

And my research suggests that yes, that can happen – at least with shares in a company, which is not listed on a stock exchange. I can find nothing in our Constitution, or in the Corporations Act, prohibiting this, nor any legal cases on the matter.

Listed Company Share

In a listed company a share price cannot fall below zero, as confirmed by the following dialogue I came across on the net.

If you were to ask an investor: can a share's price go down into negative numbers, so you in fact owe more money than what you have already put in?

And the basic response is: no, when you put money into the stock market, you are effectively buying a piece of the company, and the worst that can happen is that the value of those pieces becomes zero; i.e. nobody wants to buy them from you at any price.

The main reason for this situation is that in general a listed company's shares are 'fully paid' and have limited liability and no future financial obligations attach to them. So anyone holding a listed company share has no requirement to pay anyone anything once they've been bought.

In the case of 'partly paid' shares, there could be say 50¢ unpaid/owing on each share (ie, there is a future financial obligation), and they could be trading at more than 50¢ below a fully-paid share, but I don't think anyone would class that as a negative share price. In fact, some would say that's positive because you could then buy a share and pay up the unpaid amount and it will still cost less than the price of a fully-paid share.

Unlisted Company Share

However, that conclusion does not always ring true for a company which is unlisted – particularly where there is some future financial obligation attached to the shares.



And that is exactly the situation with our company, and an on-going problem I believe we have to look into. In other words, once you own shares in the company you are obliged to pay the annual membership fee. And if you want to resign from the company, you can't do so until you can dispose of your shares. Conversely, if you want to sell your shares, you have to find a buyer who wants to become a member and pay the annual fee.

Hence, it may be that the only way to sell your shares is to pay someone to take them!

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