

Table of Contents

CHAPTER 1. SCOPE OF TREATISE, OBJECTIVES AND PRELIMINARY CONSIDERATIONS

- § 1:1 Scope of book
- § 1:2 The traditional corporate control pattern
- § 1:3 Losses and injustices to squeezees
- § 1:4 Losses to the economy
- § 1:5 Objectives of book

CHAPTER 2. UNDERLYING CAUSES OF SQUEEZE-OUTS

- § 2:1 Scope of chapter
- § 2:2 Greed and desire for power; Personality clashes, marital discord, and family quarrels; Basic conflicts of interest and disagreements over policy
- § 2:3 The inactive shareholder
- § 2:3.50 Split between those providing money and sweat equity
- § 2:4 Death of founder or other key shareholder
- § 2:5 The problem of the aged founder who “hangs on”
- § 2:6 Drive of superior talent to rise
- § 2:7 The autocratic controlling shareholder; Acquiescence by some shareholders in assumption of special privileges by others
- § 2:8 Disregard of corporate ritual and failure to keep proper records
- § 2:9 View that corporation belongs to shareholder employees
- § 2:10 Viewing incorporated enterprise as a “partnership” or “family business”
- § 2:11 The obstreperous or uncooperative shareholder; The deteriorating shareholder-employee; Majority shareholders’ view that they are justified in eliminating a minority shareholder when personal relationships deteriorate
- § 2:12 Entry of minority shareholders into a competing business

OPPRESSION OF MINORITY SHAREHOLDERS & LLC MEMBERS

- § 2:13 Failure to provide properly for entrepreneur after the start-up or for new inventions by inventor-shareholder
- § 2:14 Issuance of small number of shares as incentive to employees or for other reasons; Gifts of shares to children
- § 2:15 Difficulty of disposing of a minority interest in a closely held business
- § 2:16 Difficulty of valuing a business interest
- § 2:17 Failure to consider all ramifications of business bargain and reduce entire bargain to writing
- § 2:18 Undercapitalization of business
- § 2:19 Failure to appreciate problems that might arise out of change in ownership and control
- § 2:20 Business participants' failure to obtain preventive legal services and inability of many lawyers to supply adequate preventive services

CHAPTER 3. SQUEEZE-OUT TECHNIQUES: REDUCING A PARTICIPANT'S RETURN (OR INCREASING THE CONTROLLING PERSON'S RETURN); USING GOVERNANCE OR CONTRACTUAL RIGHTS

A. INTRODUCTION

- § 3:1 Scope of chapter
- § 3:2 Squeeze techniques in general
- § 3:3 Legal principles that obstruct relief

B. TECHNIQUES RELATED TO REDUCING ONE PARTICIPANT'S RETURN OR INCREASING RETURNS OF CONTROLLING PARTICIPANTS

- § 3:4 Dividend withholding—Variations in the setting and the technique
- § 3:5 —Remedies of the squeeze
- § 3:6 Excluding minority shareholders from company employment and eliminating them from the directorate

TABLE OF CONTENTS

- § 3:7 Siphoning off earnings by high compensation to majority shareholders—Description of the technique and its impact on minority shareholders
- § 3:8 Siphoning off earnings—Remedies of the minority shareholder
- § 3:9 Siphoning off corporate earnings by leases and loans favorable to majority shareholders
- § 3:10 Siphoning off a corporation's profits by having other enterprises perform services for it
- § 3:11 Siphoning off earnings by other contractual arrangements; Failure to enforce contracts for benefit of corporation
- § 3:12 Fraudulent or unfair contracts: Squeeze's remedies
- § 3:13 Corporation's purchase of shares from majority shareholder at high price
- § 3:14 Appropriation of corporate assets, contracts, or credit for personal use
- § 3:15 Usurping corporate opportunities
- § 3:16 Dilution of minority shareholders' interests through issuance of stock
- § 3:17 Withholding information—In general
- § 3:18 —In buying out minority shareholders

C. TECHNIQUES RELATED TO GOVERNANCE OR SHAREHOLDER AGREEMENTS

- § 3:19 Maneuvers related to corporate meetings; failure to hold meetings
- § 3:20 Eliminating or circumventing cumulative voting
- § 3:21 Removal or imposition of stock transfer restrictions and buyback of shares
- § 3:22 Manipulations of stock transfer restrictions
- § 3:23 Valuation; Refusal of young shareholders to adjust periodically the transfer price of shares subject to a buy-out agreement

D. OTHER TECHNIQUES

- § 3:24 Transactions between a parent corporation and partly owned subsidiary
- § 3:25 Trusts as controlling shareholders
- § 3:26 Squeeze-outs of majorities by minorities
- § 3:27 Using legal processes as a squeeze technique

- § 3:28 Other squeeze-out techniques; Miscellaneous
oppressive practices

CHAPTER 4. SQUEEZE-OUT TECHNIQUES: SALE OF CONTROL AND RELATED TECHNIQUES

- § 4:1 Scope of chapter
§ 4:2 Transactional settings for control premiums
§ 4:3 Substitutability of alternative transactional
settings available to purchaser seeking to
acquire control and its impact on control
premiums
§ 4:4 Traditional legal doctrine
§ 4:5 Theories about control premiums
§ 4:6 Empirical studies of control premiums
§ 4:7 Misrepresentations, omissions and fraud
§ 4:8 Misrepresentations, omissions and fraud if the
plaintiff does not buy or sell
§ 4:9 Looting cases
§ 4:10 Sale of office
§ 4:11 Control premiums as breach of fiduciary duty
of loyalty
§ 4:11.50 Who is a controlling shareholder?
§ 4:12 Controlling shareholders ability to assert
fiduciary duties in defense of control
premiums
§ 4:13 Revlon applications in a control premium
setting
§ 4:14 Control premiums in antitakeover statutes
§ 4:15 Appraisal or fiduciary duty in cash out
mergers and control premiums
§ 4:16 Oppression claims and control premiums

CHAPTER 5. SQUEEZE-OUT TECHNIQUES: FUNDAMENTAL CORPORATE CHANGES

A. INTRODUCTION

- § 5:1 Scope of chapter
§ 5:2 Procedures for effectuating fundamental corporate
changes; Susceptibility to use in squeeze plays

TABLE OF CONTENTS

- § 5:3 Historical trend of statutory and judicial developments on use of fundamental corporate changes to accomplish squeeze-outs

B. SPECIFIC EXAMPLES OF FUNDAMENTAL CORPORATE CHANGES SUSCEPTIBLE TO USE IN SQUEEZE PLAYS: MERGERS AND RELATED TRANSACTIONS

- § 5:4 Squeeze-outs through mergers
- § 5:5 Eliminating minority shareholders by short form mergers; use of short form merger by individual majority shareholder
- § 5:6 Merger variations: Triangular mergers and reverse triangular mergers used to avoid shareholder vote or dissenters' rights or to squeeze-out minority
- § 5:7 Two-step transactions: Tender offers plus mergers
- § 5:8 Going private
- § 5:9 Compulsory share exchange
- § 5:10 Mergers used to avoid "first option" rights or redemption obligations
- § 5:11 Mergers used to terminate derivative suits
- § 5:12 Mergers in limited liability companies
- § 5:13 Mergers between different kinds of entities

C. SPECIFIC EXAMPLES: CHANGING SHARE RIGHTS THROUGH CHARTER AMENDMENTS OR OTHERWISE

- § 5:14 Charter or bylaw amendment—A squeeze technique
- § 5:15 Reverse stock split
- § 5:16 Making shares redeemable
- § 5:17 Alteration or destruction of preferences or other rights of preferred shareholders
- § 5:18 Recapitalizations, including dual class recapitalization

D. SPECIFIC EXAMPLES: SALE OF ASSETS AND/OR DISSOLUTION

- § 5:19 Sale of corporate business, franchise and assets
- § 5:20 Sale of assets at an inadequate price or in circumstances oppressive to minority shareholders; shareholder remedies

OPPRESSION OF MINORITY SHAREHOLDERS & LLC MEMBERS

- § 5:21 Sale of assets to circumvent minority power to veto desired corporate action or avoid a buy-sell agreement
- § 5:22 Sale of assets to set stage for oppression of minority
- § 5:23 Splitting off the profitable part of business and transferring it to majority shareholders
- § 5:24 Mortgage of all corporate assets
- § 5:25 Dissolution
- § 5:26 Inadequacy of value of proportionate part of corporation's physical assets as payment for objecting shareholder's interest in dissolved corporation

E. MISCELLANEOUS METHODS; CATEGORIES

- § 5:27 Obtaining amendment of the corporation statute or enactment of special statute to facilitate squeeze-out
- § 5:28 Creation of a subsidiary or a holding company as a maneuver in a squeeze play; possibility of transferring business to a company in a state where the climate is more favorable to a squeeze-out
- § 5:29 Use of bankruptcy or other creditor proceedings to eliminate minority shareholders; Intentional destruction of business; purchase and enforcement of claim against corporation

F. REMEDIES FOR MINORITY SHAREHOLDERS AGAINST FUNDAMENTAL CORPORATE CHANGE

- § 5:30 Overview of remedies afforded minority shareholders in fundamental corporate changes
- § 5:31 Fundamental corporate changes that avoid shareholder voting or exit rights
- § 5:32 The doctrine of de facto merger
- § 5:33 Appraisal rights; Limitations on the effectiveness of dissenters' statutory right to have shares purchased
- § 5:34 Procedural difficulties associated with appraisal
- § 5:35 Costs involved in asserting appraisal rights

TABLE OF CONTENTS

§ 5:36	Suits for breach of fiduciary duty
§ 5:37	Cleansing of self-interested status in fiduciary duty suits
§ 5:38	Right to sue for breach of fiduciary duty and for appraisal in two-step transactions
§ 5:39	Exclusivity of appraisal or a fiduciary duty claim for a minority shareholder squeezed out in a merger or other fundamental control transaction
§ 5:40	Relation to oppression remedies and other remedies
§ 5:40.50	Relation to shareholders' and LLC agreements
§ 5:41	Valuation in appraisal statutes and fiduciary duty suits
§ 5:42	Time of valuation; Excluding value created by the merger from an appraisal calculation
§ 5:43	Valuation: Discounts for minority status of lack of marketability
§ 5:44	Inclusion of a valuation reflecting majority misconduct
§ 5:45	The impact of market price on valuation
§ 5:46	Distinctive valuation rules for short form mergers
§ 5:47	Procedures for determining valuation and measure of recovery
§ 5:48	Disclosure obligations under state law
§ 5:49	Attacks on mergers or other shareholder action as violative of federal law: Proxy regulation
§ 5:50	Federal remedies: SEC Rule 10b-5
§ 5:51	Federal remedies: The registration provisions of the Securities Act of 1933
§ 5:52	Federal remedies: Going private regulations
§ 5:53	Litigation in fundamental corporate changes

Table of Contents

CHAPTER 6. SQUEEZE-OUTS IN LIMITED LIABILITY COMPANIES AND S CORPORATIONS

A. INTRODUCTION

- § 6:1 Scope of chapter
- § 6:2 Origin and structure of the LLC
- § 6:3 Interpreting LLC statutes
- § 6:4 Governance norms: member-managed or manager-managed; majority rule
- § 6:5 The importance of contracts

B. SQUEEZE-OUT TECHNIQUES TO REDUCE THE RETURN OF A MINORITY OWNER AND INCREASE THE RETURN OF MEMBERS OF THE CONTROL GROUP

- § 6:6 Terminating employment of minority owners; Removing minority owners from managerial roles
- § 6:7 Expulsion of members
- § 6:8 Denial of admission as a member
- § 6:9 Siphoning of income to the controlling group
- § 6:10 Withholding distributions
- § 6:11 Dilution of shares via new issuance of ownership interests
- § 6:12 Company (corporate) opportunity; competition with the company
- § 6:13 Withholding information
- § 6:14 Governance: Misuse of annual or special meetings
- § 6:15 Purchasing shares pursuant to agreement
- § 6:16 Other squeeze-out techniques

C. RESPONSES TO SQUEEZE-OUTS IN THE LLC: CONTRACTUAL APPROACHES AND FIDUCIARY DUTY

- § 6:17 Overview

OPPRESSION OF MINORITY SHAREHOLDERS & LLC MEMBERS

- § 6:18 Statutory protections
- § 6:19 Contractual provisions providing veto to check majority rule
- § 6:20 Contractual provisions offering buyouts
- § 6:21 Fiduciary duty
- § 6:22 Fiduciary duty as limited by contractual agreements; Exculpation and indemnification
- § 6:23 Actions to bring fiduciary duty claims: Direct or derivative
- § 6:24 Derivative suits in LLCs: Procedural requirements
- § 6:25 Direct suits distinguished from derivative suits
- § 6:26 Remedial and procedural issues in fiduciary duty actions
- § 6:27 Implied contractual obligation of good faith and fair dealing
- § 6:28 Inspection rights
- § 6:29 Arbitration

D. RESPONSES TO SQUEEZE-OUTS IN THE LLC: INVOLUNTARY DISSOLUTION (INCLUDING OPPRESSION AND DEADLOCK)

- § 6:30 Involuntary dissolution
- § 6:31 Not reasonably practicable
- § 6:32 Oppression/unfairly prejudicial: Adverse impact on an individual member
- § 6:33 Deadlock
- § 6:34 Contractual limits on involuntary dissolution
- § 6:35 Relationships among multiple remedies

E. FUNDAMENTAL CHANGES

- § 6:36 Mergers and other fundamental changes
- § 6:37 Mergers in LLCs
- § 6:38 Sale of substantially all assets; Amendments to the articles of organization or operating agreement
- § 6:39 Appraisal in LLCs
- § 6:40 Fiduciary duty in LLC mergers and other fundamental changes

F. SUBCHAPTER S CORPORATIONS

- § 6:41 Squeeze-out and other oppression possibilities in S corporations

TABLE OF CONTENTS

- § 6:42 Withholding dividends or compensation in an S corporation as a squeeze play
- § 6:43 Squeeze play related to transfers of shares in an S corporation

CHAPTER 7. RESISTING SQUEEZE-OUTS AND OPPRESSION

A. INTRODUCTION

- § 7:1 Scope of chapter
- § 7:2 Changes in statutory and judicial views of the role of shareholders, particularly in close corporations

B. REMEDIES BASED ON FIDUCIARY DUTY

- § 7:3 Fiduciary obligations of officers, directors, or controlling shareholders as the basis for relief
- § 7:4 Enhanced or modified fiduciary duties in close corporations
- § 7:5 Analogizing a close corporation to a partnership; asserting that a partnership or joint venture relationship survives incorporation
- § 7:6 Asserting that corporation is a company founded on a personal relationship
- § 7:7 Direct versus derivative suits
- § 7:8 Distinguishing direct from derivative claims; a minority shareholder's individual action for oppression
- § 7:9 Direct recovery in derivative suits

C. REMEDIES ORIENTED TO PROVIDING A SHAREHOLDER EXIT

- § 7:10 Evolution of statutory and judicial responses to the norm of permanence in corporations
- § 7:11 Relief based on oppression
- § 7:12 Relief based on reasonable expectations
- § 7:13 Reasonable expectations: Role of plaintiff's conduct
- § 7:14 Corporations to which a reasonable expectations standard should be applicable
- § 7:15 Common law relief in the absence of statute
- § 7:16 Relief based on deadlock
- § 7:16.50 Application of close corporation remedies to a non-profit corporation

D. REMEDIES IF GROUNDS FOR RELIEF ARE SHOWN

- § 7:17 Remedies: From dissolution to buyouts
- § 7:18 Buyout at the choice of the corporation or majority shareholder
- § 7:19 Judicially ordered buyout
- § 7:20 Fair value
- § 7:21 Dissolution; appointment of a receiver
- § 7:22 Custodian
- § 7:23 Provisional director
- § 7:24 Judicial ordering of other corporate action or any equitable relief
- § 7:25 Effect of shareholders' agreement on judicial remedies; effect of mergers or other fundamental corporate changes on judicial remedies
- § 7:26 Relationship of legislative and judicial remedies
- § 7:27 Determining which corporation's law applies

E. OTHER REMEDIES

- § 7:28 Utilizing rights available under federal securities laws
- § 7:29 Utilizing rights available under state securities law or common law fraud
- § 7:30 Combining federal and state claims in one action; pendent jurisdiction; bringing a class action
- § 7:31 Expanding the number of defendants: broadened concepts of primary liability; secondary liability; agency and tort principles; alter ego and piercing the corporate veil; conspiracy doctrines
- § 7:32 Preserving rights; avoiding waiver, laches and acquiescence
- § 7:33 Miscellaneous tactics and maneuvers
- § 7:34 Prelitigation investigation sources
- § 7:35 Utilizing shareholder's right to inspect corporate books and records
- § 7:36 Utilizing director's right to inspect corporate books and records and to make on-premises inspections
- § 7:37 Getting information and assistance from administrative agencies
- § 7:38 Discovery; challenging claims of attorney-client or accountant-client privilege
- § 7:39 —The attorney-client privilege generally

TABLE OF CONTENTS

- § 7:40 —The attorney-client privilege in an intracorporate setting
- § 7:41 —Other limits to use of attorney-client privilege
- § 7:42 —The accountant-client privilege
- § 7:43 Overcoming the work product doctrine

CHAPTER 8. RESISTING SQUEEZE-OUTS AND OPPRESSION: REMEDIES UNDER FEDERAL LAW

A. INTRODUCTION

- § 8:1 Remedies under federal securities laws; scope of chapter

B. RULE 10B-5: JURISDICTIONAL AND POLICY LIMITS

- § 8:2 Language of Section 10(b) and Rule 10b-5
- § 8:3 Interstate commerce
- § 8:4 Definition of “any security”
- § 8:5 Purchase or sale
- § 8:6 In connection with
- § 8:7 Private causes of action
- § 8:8 Standing
- § 8:9 Swings in the pendulum

C. RULE 10B-5: ELEMENTS OF THE PROHIBITED ACT; MEASURE OF RECOVERY

- § 8:10 Statutory and common-law sources
- § 8:11 Misrepresentation, omission and duty to disclose
- § 8:12 Materiality
- § 8:13 Fact
- § 8:14 Scienter
- § 8:15 Reliance and causation
- § 8:16 Measure of recovery

D. RULE 10B-5: TYPES OF SQUEEZE-OUT OR OPPRESSION TRANSACTIONS COVERED UNDER RULE 10B-5

- § 8:17 Controlling shareholders purchasing or selling

OPPRESSION OF MINORITY SHAREHOLDERS & LLC MEMBERS

shares without revealing material information:

Insider trading

§ 8:18 Mergers

§ 8:19 Mismanagement

E. FEDERAL LAWS: MISCELLANEOUS

§ 8:20 Rule 10b-5 proceedings compared to proceedings under state law

§ 8:21 Expanding the number of defendants: broadened concepts of primary liability; secondary liability; securities laws provisions on “controlling persons”; and conspiracy doctrines

§ 8:22 Age Discrimination in Employment Act (ADEA)

CHAPTER 9. CONTRACTS AND OTHER ARRANGEMENTS WHICH AVOID SQUEEZE-OUTS AND OPPRESSION

A. INTRODUCTION

§ 9:1 Scope of chapter

§ 9:2 Entity default rules that can trigger a need for contract

§ 9:3 Interaction of contract with statutory and common law rules

§ 9:4 Using contract to limit fiduciary duty or seeking relief for oppression

B. RECURRING CONTEXTS IN WHICH CONTRACTS ARE USED

§ 9:5 Different points in a relationship where contracts are used

§ 9:6 Disputes arising from agreements long standing in the parties’ relationship

§ 9:7 Buyouts adopted to settle a current dispute

§ 9:8 Alternative arrangements for settling disputes

§ 9:9 Buybacks raising implied covenant of good faith and fair dealing

§ 9:10 Sales pursuant to a buy-sell or other contracts leading to other claims

§ 9:11 Restrictions on transfers

§ 9:12 Contracts relating to ongoing employment

TABLE OF CONTENTS

§ 9:13 Contracts related to governance

C. SPECIFIC KINDS OF AGREEMENTS

§ 9:14 Buy-out arrangements—Generally

§ 9:15 Buyouts—Trigger

§ 9:16 —Terms of purchase

§ 9:17 —Valuation

§ 9:18 —Contract interactions with statutory and fiduciary duties providing buyouts

§ 9:19 —Other procedural issues

§ 9:20 Assuring return while a participant remains active—Long-term employment contracts

§ 9:21 —Provisions requiring dividends or other returns on investments

§ 9:22 Governance—Providing a veto

§ 9:23 Cautions in using high vote requirements

§ 9:24 Providing a veto by tailoring the entity's ownership structure

§ 9:25 Special charter and bylaw provisions

§ 9:26 Protecting preferred shareholders

D. ADDITIONAL PRECAUTIONS

§ 9:27 Precautions in selecting a state of incorporation and in incorporating a partnership

§ 9:28 Separate attorney for each participant

CHAPTER 10. IDEA GUIDE FOR CHANGES IN LEGAL CONTROL

§ 10:1 Scope of chapter

§ 10:2 Need for legal protection of contractual arrangements designed to prevent minority oppression

§ 10:3 Need for legal protection of minority participants who fail to obtain protective contractual arrangements

§ 10:4 Need for judicial discrimination in applying the business judgment rule

§ 10:5 Need for judicial discrimination in applying the business judgment rule in oppression contexts

§ 10:6 Understanding the relative roles of derivative and direct suits in oppression contexts

§ 10:7 Recognizing enhanced fiduciary duties in oppression contexts

OPPRESSION OF MINORITY SHAREHOLDERS & LLC MEMBERS

- § 10:8 Legislative broadening of grounds for corporate dissolution
- § 10:9 Legislative alternatives to dissolution as a remedy for shareholder dissension
- § 10:10 Need for innovative or resourceful remedies developed by some courts
- § 10:11 Statutory modifications regarding fundamental entity changes
- § 10:12 Changing appraisal statutes
- § 10:13 British devices for protecting minority shareholders
- § 10:14 Modifications to British remedies
- § 10:15 Oppression remedies in other jurisdictions
- § 10:16 Miscellaneous proposals: Requiring corporate officials to supply information to minority shareholders; Administrative agencies to protect minority interests

Table of Laws and Rules

Table of Cases

Index