

Table of Contents

CHAPTER 1. DIRECTOR AND OFFICER LIABILITY: THE NEED FOR INDEMNIFICATION

- § 1:1 Introduction
- § 1:2 The duties of care, loyalty and good faith generally
- § 1:3 The business judgment rule
- § 1:4 Duty of care examined
- § 1:5 —Ownership decisions
- § 1:6 —Enterprise decisions
- § 1:7 —Duty of oversight
- § 1:8 —Interpretation and application of rule
- § 1:9 The duty of loyalty examined
- § 1:10 —Loyalty to stockholder interests
- § 1:11 —The duty of independence
- § 1:12 —The duty of candor
- § 1:13 —The corporate opportunity doctrine
- § 1:14 Statutory expressions of fiduciary duty
- § 1:15 —2016 Model Business Corporation Act
- § 1:16 —California's code
- § 1:17 —New York's code
- § 1:18 —Pennsylvania: Alternative fiduciary standards
- § 1:19 —Delaware: Reliance on the judiciary
- § 1:20 State statutes limiting liability
- § 1:21 —Delaware and other "charter option" statutes
- § 1:22 ——Model Act charter option provision
- § 1:23 —Other state approaches
- § 1:24 —Virginia: A special case
- § 1:25 Liabilities of officers and directors compared;
Quasi-directors
- § 1:26 —Officers—Defining "officer"
- § 1:27 ——Standards of liability
- § 1:28 —Impact of the sentencing guidelines
- § 1:29 —Varying liability of directors
- § 1:30 ——Inside directors
- § 1:31 ——Audit and other committee members
- § 1:32 ——Function of audit committees
- § 1:33 ——Regulation of audit committees by the SEC

DIRECTOR AND OFFICER LIABILITY

- § 1:34 — — —Regulation of audit committees by the major stock markets
- § 1:35 — — —Liabilities of audit committee members
- § 1:36 — — —Representative directors
- § 1:37 — — —Outside directors
- § 1:38 — — —Outside directors—Application of group-pleading doctrine
- § 1:39 — — —Varying liability of directors—Honorary, advisory and emeritus directors
- § 1:40 — — —Fiduciary duties
- § 1:41 — — —Special considerations affecting advisory directors of financial institutions
- § 1:42 — — —Treatment of adjunct directors under federal securities laws
- § 1:43 Fiduciary duties to other constituencies
- § 1:44 — — —Fiduciary duties owed to corporate creditors
- § 1:45 — — —Fiduciary duties owed to limited partners

CHAPTER 2. LEGAL ACTIONS AGAINST OFFICERS AND DIRECTORS: ENFORCEMENT OF THE DUTY OF CARE AND OTHER SOURCES OF LIABILITY CLAIMS

- § 2:1 Introduction
- § 2:2 Actions by the corporation: Duty of care
- § 2:3 Duty of loyalty actions
- § 2:4 Derivative actions
- § 2:5 — — —Preconditions for bringing a derivative action
- § 2:6 — — —A corporate right
- § 2:7 — — —Caselaw illustrations
- § 2:8 — — —Failure to enforce: The need for demand
- § 2:9 — — —Failure to enforce: The need for demand— Caselaw discussion
- § 2:10 — — —Failure to enforce: the need for demand— Demand denied
- § 2:11 — — —Preconditions for bringing a derivative action— Demand excused cases
- § 2:12 — — — —The Delaware approach
- § 2:13 — — — —Cases finding failure to establish demand futility
- § 2:14 — — — —Cases finding establishment of demand futility
- § 2:15 — — — —Approach of the Ninth and First circuits
- § 2:16 — — — —The New York approach

TABLE OF CONTENTS

§ 2:17	— — —The New Jersey approach
§ 2:18	— — Shareholder standing
§ 2:19	— — —Continuing wrong doctrine
§ 2:20	— — —Application of requirement
§ 2:21	— Special litigation committees
§ 2:22	— — Investigations
§ 2:23	— — Committee report
§ 2:24	— Proposed reform of shareholder derivative litigation
§ 2:25	Shareholder class actions
§ 2:26	— Theory and prerequisites of a class action
§ 2:27	— Relationship of derivative and class claims
§ 2:28	— Class actions for securities fraud
§ 2:29	— Pleading wrongful demand refusal
§ 2:30	— Cases finding insufficient pleading
§ 2:31	— Pleading breach of duty
§ 2:32	— Cases finding sufficient pleading
§ 2:33	— Cases finding insufficient pleading

**CHAPTER 3. POSSIBLE LIABILITIES
OF OFFICERS AND DIRECTORS UNDER
FEDERAL AND STATE STATUTES**

§ 3:1	Statutory liabilities generally
§ 3:2	Liability under state and federal antitrust and trade regulation laws
§ 3:3	— The Sherman Act
§ 3:4	— The Clayton Act
§ 3:5	— The Robinson-Patman Act
§ 3:6	— The Federal Trade Commission Act
§ 3:7	— State antitrust laws
§ 3:8	Liability with respect to employment-related claims—Introduction
§ 3:9	— Individual liability under wage and hour laws—Fair Labor Standards Act
§ 3:10	— — State compensation laws
§ 3:11	— Individual liability under discrimination laws—Title VII, the Age Discrimination in Employment Act, and the Americans With Disabilities Act
§ 3:12	— — Equal Pay Act
§ 3:13	— — Equal protection claims (42 U.S.C.A. § 1981)
§ 3:14	— — State anti-discrimination laws
§ 3:15	— Individual liability under the Family and Medical Leave Act

DIRECTOR AND OFFICER LIABILITY

- § 3:16 —Individual liability for employee benefits claim—Employee Retirement Income Security Act
- § 3:17 — — —Caselaw interpretations
- § 3:18 — — —Preemption
- § 3:19 — — —Continuation health insurance coverage
- § 3:20 —Individual liability for employment-related common law claims
- § 3:21 —Insurance for employment-based claims— Directors and officers liability insurance
- § 3:22 — — —Employment practices liability insurance
- § 3:23 Liability of officers and directors under federal and state tax laws
- § 3:24 Liability of officers and directors under environmental protection laws
- § 3:25 —Federal environmental statutes
- § 3:26 —State environmental statutes
- § 3:27 —Bases for director and officer liability
- § 3:28 —Liabilities under CERCLA
- § 3:29 — — —Statutory basis of CERCLA civil liability
- § 3:30 — — —Judicial interpretations of civil liability under CERCLA
- § 3:31 — — —Standard I—Personal participation in the wrongful acts
- § 3:32 — — —Standard II—The “capacity to control”
- § 3:33 — — —Criminal liability under CERCLA
- § 3:34 —Liabilities under RCRA
- § 3:35 — — —Statutory bases of civil liability under RCRA
- § 3:36 — — —Judicial interpretations of civil liability under RCRA
- § 3:37 — — —Criminal liability under RCRA
- § 3:38 —Availability of insurance and indemnification
- § 3:39 — — —Limitations on insurance coverage
- § 3:40 — — —State liability limiting statutes
- § 3:41 — — —Availability of indemnification
- § 3:42 Liability of officers and directors under occupational safety and health laws
- § 3:43 Liability of officers and directors under Food Drug and Cosmetic Act
- § 3:44 —Criminal liability
- § 3:45 Securities law liabilities generally
- § 3:46 —Liability provisions of the Securities Act of 1933—Section 11 liability and the diligence defense

TABLE OF CONTENTS

§ 3:47	— — —Liabilities of officers and directors under Sections 12 and 17 of the 1933 Act
§ 3:48	— — —Liability of controlling persons
§ 3:49	— — —Enforcement and criminal references
§ 3:50	—Private rights of action under state securities' law
§ 3:51	—Liability of directors and officers under the Securities Exchange Act of 1934 generally
§ 3:52	— — —Liability under Section 10(b) and Rule 10b-5 of the 1934 Act
§ 3:53	— — —Conduct prohibited by Section 10(b) and Rule 10b-5
§ 3:54	— — —Private rights of action
§ 3:55	— — —Abuse of informational advantages— Insider trading
§ 3:56	— — —Disclosure issues
§ 3:57	— — —Recent SEC rulemaking: Regulation FD and Rules 10b5-1 and 10b5-2
§ 3:58	— — —Manipulation and deception in other contexts
§ 3:59	— — —Secondary liability for violations of Section 10(b) and Rule 10b-5
§ 3:60	— — —Section 14 of the 1934 Act: Proxy solicitations and tender offers
§ 3:61	— — —Regulation of proxy solicitation
§ 3:62	— — —Regulation of proxy solicitation—Demand futility in Section 14 proxy solicitation actions
§ 3:63	— — —Section 14 of the 1934 Act: Proxy solicitations and tender offers—Regulation of mergers and tender offers; Regulation M-A
§ 3:64	— — —Preemption of state antitakeover statutes
§ 3:65	— — —Section 16 and short-swing profit liability
§ 3:66	— — —Other liability provisions of the 1934 Act
§ 3:67	— — —Liability of controlling persons
§ 3:68	— — —Sufficient pleading
§ 3:69	— — —The Private Securities Litigation Reform Act of 1995
§ 3:70	— — —Pleading reform
§ 3:71	— — —Application of pleading requirement
§ 3:72	— — — — —Scienter
§ 3:73	— — —Safe harbor for predictive statements
§ 3:74	— — —The bespeaks caution doctrine
§ 3:75	— — —Application of safe harbor
§ 3:76	— — —Control of litigation by plaintiffs
§ 3:77	— — —Proportionate liability

DIRECTOR AND OFFICER LIABILITY

- § 3:78 — —Uniform standards legislation
- § 3:79 Enforcement options of the securities and exchange commission
- § 3:80 —The Securities Enforcement Remedies and Penny Stock Reform Act of 1990
- § 3:81 —Administrative powers
- § 3:82 —Civil money penalties
- § 3:83 — —Double jeopardy considerations
- § 3:84 —Accounting and disgorgement
- § 3:85 —Prohibition of persons serving as officers and directors
- § 3:86 RICO liability for corporate officers and directors
- § 3:87 Special liability considerations for financial institutions—Dual sources of liability
 - The regulatory structure
 - Legislation
 - FIRREA
 - —Crime Control Act
 - —FDICIA
 - § 3:93 —Sources of statutory civil liability
 - § 3:94 — —Section 93 of the National Bank Act
 - § 3:95 — —General liability provisions of the Federal Reserve Act
 - § 3:96 — —Regulatory agency orders
 - § 3:97 — —Loans to one borrower
 - § 3:98 — —Violation of capital requirements—“Prompt corrective action”
 - § 3:99 — —Violation of tripwire provisions
 - § 3:100 — —Director’s oath
 - § 3:101 — —Suspension for crimes involving dishonesty or breach of trust
 - § 3:102 — —Loans to insiders
 - § 3:103 — —Other transactions with insiders and affiliates
 - § 3:104 — —Tying arrangements
 - § 3:105 — —Correspondent accounts
 - § 3:106 — —Periodic reporting requirements
 - § 3:107 — —Annual management and accountant’s report
 - § 3:108 — —Special requirements
 - § 3:109 — — —Changes of control
 - § 3:110 — — —Loans secured by institution stock
 - § 3:111 — — —Insider loans
 - § 3:112 — — —Transactions with correspondent banks
 - § 3:113 — — —Monetary transactions

TABLE OF CONTENTS

§ 3:114	— — — Crimes
§ 3:115	— — General requirements of safety and soundness
§ 3:116	— — Fair lending violations
§ 3:117	— Sources of criminal liability
§ 3:118	— — General banking crimes—Theft of bank funds
§ 3:119	— — — Bank fraud
§ 3:120	— — — Gifts or commissions for procuring loans
§ 3:121	— — False statement crimes related to banking—False certification of checks
§ 3:122	— — — False bank entries, reports, and transactions
§ 3:123	— — — False reporting to obtain profit
§ 3:124	— — — False statements to influence FDIC
§ 3:125	— — — False loan applications
§ 3:126	— — — False advertising concerning status of federal insurance
§ 3:127	— — General federal criminal liability—Bribery of public officials
§ 3:128	— — — False statements or entries generally
§ 3:129	— — — Obstruction of criminal investigations
§ 3:130	— — — Obstruction of examinations
§ 3:131	— — — Concealment of assets from conservators and receivers
§ 3:132	— — — Ancillary liability
§ 3:133	— — — Continuing financial crime enterprises
§ 3:134	— — Other criminal liability
§ 3:135	— Remedies for statutory violations
§ 3:136	— — Cease and desist orders
§ 3:137	— — Removal or suspension
§ 3:138	— — Civil money penalties
§ 3:139	— — Civil money penalties for violations of criminal laws (12 U.S.C.A. § 1833a)
§ 3:140	— — Private rights of action
§ 3:141	Troubled depository institutions
§ 3:142	Liability for violations of the laws protecting intellectual property—Liability of directors and officers under the patent laws
§ 3:143	— Liability of directors and officers under the copyright law
§ 3:144	— Liability of officers and directors under the federal trademark laws
§ 3:145	Liability of officers and directors under state trade secret laws

- § 3:146 The Sarbanes-Oxley Act of 2002
- § 3:147 —Financial reporting
- § 3:148 —Director liability under anti-retaliation provision
- § 3:149 New York Stock Exchange Listed Company Manual
- § 3:150 Forms—NYSE Domestic Company Section 303A Annual Written Affirmation

CHAPTER 4. INDEMNIFICATION OF CORPORATE OFFICIALS: DEFINITION AND DEVELOPMENT

- § 4:1 Indemnification defined
- § 4:2 Indemnification distinguished from insurance
- § 4:3 Uses of indemnification
- § 4:4 Indemnification of corporate officials
- § 4:5 —Public policy
- § 4:6 —Common law roots of indemnification of corporate officials—Agency law
 - § 4:7 ——Application
 - § 4:8 ——Trust law
 - § 4:9 Events leading to codification
 - § 4:10 —*New York Dock Co., Inc. v. McCollom*
 - § 4:11 —Reaction No. 1: The compensation theory
 - § 4:12 ——The first statutes
 - § 4:13 —Reaction No. 2: The duty to resist
 - § 4:14 A proliferation of statutes
 - § 4:15 —Early Versions of the Model Act
 - § 4:16 The importance of indemnity agreements
 - § 4:17 —New York: The imputation of preemption
 - § 4:18 —Delaware: The sphinx-like opinion in *Mooney v. Willys-Overland Motors, Inc.*
 - § 4:19 ——The facts: A stockholder suit
 - § 4:20 ——The legal arguments
 - § 4:21 ——The third circuit's opinion
 - § 4:22 ——An independent legal ground
 - § 4:23 The turbulent sixties
 - § 4:24 The 1967 Delaware and Model Act Revisions
 - § 4:25 Delaware and the Model Act part company
 - § 4:26 —Model Act Revisions of 1980: A complete overhaul
 - § 4:27 The tightening of the insurance market
 - § 4:28 Insurers' need to monitor insured

TABLE OF CONTENTS

CHAPTER 5. STATE INDEMNIFICATION LEGISLATION

- § 5:1 General
- § 5:2 Governing law
- § 5:3 —Business combinations and reincorporation
- § 5:4 Analysis of the Delaware statute
- § 5:5 —General issues of applicability
- § 5:6 ——Who may be protected?
- § 5:7 ——Capacity limitations
- § 5:8 ——Indemnification of “agents”
- § 5:9 ——Indemnification of persons serving other enterprises
- § 5:10 ——Indemnification of plaintiffs
- § 5:11 ——What constitutes an “Action, suit or proceeding”?
- § 5:12 ——What defense expenses are “Reasonable”?
- § 5:13 ——Statute of limitations
- § 5:14 —Indemnification contrasted to advancement of expenses
- § 5:15 —Advancement of expenses
- § 5:16 —Indemnification
- § 5:17 ——Mandatory indemnification
- § 5:18 —Mandatory indemnification—Cases finding success in defense
- § 5:19 ——Cases finding no success in defense
- § 5:20 —Indemnification—Permissive indemnification
- § 5:21 ——Third-party actions
- § 5:22 ——Derivative actions or actions by the corporation
- § 5:23 ——Procedural requirements
- § 5:24 —Nonexclusivity provisions
- § 5:25 —Exclusive jurisdiction of chancery court
- § 5:26 —Authorization to provide insurance
- § 5:27 New York
- § 5:28 —General issues of applicability
- § 5:29 —Advancement of expenses
- § 5:30 —Mandatory indemnification
- § 5:31 —Permissive indemnification
- § 5:32 ——Caselaw discussion
- § 5:33 —Indemnification by court
- § 5:34 —Nonexclusivity provisions
- § 5:35 —Authorization of insurance
- § 5:36 California
- § 5:37 —Applicability

DIRECTOR AND OFFICER LIABILITY

- § 5:38 —Advancement of expenses
- § 5:39 —Mandatory indemnification
- § 5:40 —Permissive indemnification
- § 5:41 —Nonexclusivity provision
- § 5:42 —Authorization of insurance
- § 5:43 The Revised Model Business Corporation Act
- § 5:44 —Applicability
- § 5:45 —Advancement of expenses
- § 5:46 —Mandatory indemnification
- § 5:47 —Permissive indemnification
- § 5:48 —Consistency provision
- § 5:49 Caselaw applying statutes—Advancement of expenses
- § 5:50 Caselaw discussion—Mandatory indemnification
- § 5:51 —Indemnification by court
- § 5:52 The Revised Model Business Corporation Act—Authorization of insurance

CHAPTER 6. PUBLIC POLICY LIMITATIONS IMPOSED BY FEDERAL LAW

- § 6:1 Introduction
- § 6:2 Protection available to depository institution officials
- § 6:3 —The effect of the Crime Control Act on indemnification
- § 6:4 —National banks
- § 6:5 —Federal thrifts
- § 6:6 —Holding companies
- § 6:7 —State chartered banks and thrifts
- § 6:8 —D&O insurance and blanket bonds
- § 6:9 Public policy and the federal securities laws—Indemnification for federal securities law violations: The 1933 Act
- § 6:10 —The Investment Company Act of 1940
- § 6:11 —Judicial recognition of public policy limitations
- § 6:12 —SEC staff disclosure guidelines for liability limitations actions
- § 6:13 —Contribution
- § 6:14 Statutory federal public policy limitations

CHAPTER 7. FEDERAL TAX CONSEQUENCES OF INDEMNIFICATION AND INSURANCE

- § 7:1 Introduction

TABLE OF CONTENTS

- § 7:2 Fundamental principles
- § 7:3 Tax treatment of litigation expenses that have not been paid or reimbursed by the corporation
- § 7:4 —Expenses directly related to the trade or business of being an officer or director
- § 7:5 —To whom the expense belongs?
- § 7:6 Tax treatment of indemnification payments—
 - Deduction by the corporation
 - Income to officer or director
 - § 7:8 —Effect of indemnification statutes
 - § 7:9 —The importance of bylaws
 - § 7:10 Particular situations—Fines
 - § 7:11 —Settlement expenses
 - § 7:12 —Shareholder derivative actions
 - § 7:13 —Criminal actions
 - § 7:14 Advancement of litigation expenses
 - § 7:15 Insurance payments

**CHAPTER 8. EFFECTS OF
BANKRUPTCY ON OFFICER AND
DIRECTOR LIABILITY
INDEMNIFICATION AND INSURANCE**

- § 8:1 Introduction
- § 8:2 Overview of bankruptcy law—General background
 - Commencement of a case
 - § 8:4 —Creation of the bankruptcy estate
 - § 8:5 —Automatic stay
 - § 8:6 —Retention of control by debtor-in-possession
 - § 8:7 —Appointment of creditors' committee
 - § 8:8 —Allowance and priority of claims—Allowance of claims
 - § 8:9 —Establishment of a bar date
 - § 8:10 —Priorities
 - § 8:11 —Assumption and rejection of executory contracts
 - § 8:12 —General prohibition against preplan payments
 - § 8:13 —Plan of reorganization—Formulation of a plan
 - § 8:14 —Plan treatment of claims and interests
 - § 8:15 —Solicitation of plan acceptances
 - § 8:16 —Plan confirmation requirements
 - § 8:17 Litigation involving directors and officers of a debtor—Possible stay of litigation
 - § 8:18 —Automatic stay
 - § 8:19 —Effect of D&O liability coverage

DIRECTOR AND OFFICER LIABILITY

- § 8:20 — — —Case discussions
- § 8:21 — —Other factors
- § 8:22 — —Section 105
- § 8:23 — — —Cases allowing officers and directors access to proceeds of debtor's D&O policy
- § 8:24 — —Uncertain scope of stay
- § 8:25 —Standing to sue
- § 8:26 Indemnification claims—Payment of directors' and officers' litigation expenses on a current basis
- § 8:27 —Possible characterization of indemnification arrangements as executory contracts
- § 8:28 —Administrative priority claims
- § 8:29 —Treatment of indemnification claims
- § 8:30 — —Subordination
- § 8:31 — — —Disallowance of contingent and unliquidated claims
- § 8:32 —Insured v. insured claims
- § 8:33 Valuing claims against directors and officers

CHAPTER 9. INDEMNIFICATION BY CHARTER PROVISIONS AND BYLAWS

- § 9:1 Introduction
- § 9:2 Checking state statutes; exclusivity
- § 9:3 Public policy limitations on indemnification
- § 9:4 Use of charter provisions
- § 9:5 Shareholder approval is desirable
- § 9:6 Common provisions that may be added to charters or bylaws to increase indemnity protection; Mandatory provisions
- § 9:7 Definition of covered persons; Employees of subsidiaries and affiliates
- § 9:8 Post-termination protection and contract clauses
- § 9:9 Mergers and acquisitions
- § 9:10 Varying state standards for indemnification; Changing the burden of proof
- § 9:11 Advances of expenses
- § 9:12 Advancement of expenses—Illustrations where advancement warranted
- § 9:13 —Illustrations where advancement not warranted
- § 9:14 Claims covered; investigations, settlements, and other uncertainties
- § 9:15 —Cases finding no coverage
- § 9:16 —Cases finding coverage
- § 9:17 Claims by plaintiffs

TABLE OF CONTENTS

- § 9:18 Derivative claims
- § 9:19 Procedures for indemnification
- § 9:20 Authorization of funding mechanisms
- § 9:21 Contribution clauses
- § 9:22 Savings clause

CHAPTER 10. SEPARATE INDEMNIFICATION CONTRACTS

- § 10:1 Advantages of indemnification contracts
- § 10:2 Enforceability of separate indemnification contracts
- § 10:3 Shareholder approval
- § 10:4 Types of separate indemnification contracts
- § 10:5 —Additional protection contracts
- § 10:6 —Quasi-Insurance contracts
- § 10:7 —Insurance supplement or replacement contracts
- § 10:8 Advancement of expenses
- § 10:9 —Caselaw discussion
- § 10:10 Severability clauses
- § 10:11 To cap or not to cap
- § 10:12 Funding mechanisms

CHAPTER 11. FUNDING ALTERNATIVES TO INSURANCE

- § 11:1 Insufficiency of traditional insurance
- § 11:2 Alternative funding mechanisms generally
- § 11:3 Self-Insurance, captive, and consortium insurers
- § 11:4 “Fronting” arrangements
- § 11:5 Letters of credit
- § 11:6 Indemnification trusts
- § 11:7 Statutory authority for alternative funding mechanisms

CHAPTER 12. DIRECTORS’ AND OFFICERS’ LIABILITY INSURANCE

- § 12:1 Introduction
- § 12:2 A short history of D & O coverage
- § 12:3 Advantages of D & O Insurance
- § 12:4 Contractual nature of insurance
- § 12:5 Structure of the typical policy
- § 12:6 Analysis of D & O policy provisions
- § 12:7 —A “Claim” must have been made during the policy period

DIRECTOR AND OFFICER LIABILITY

- § 12:8 —A “Claim” must have been made during the policy period—Case illustrations of what does and does not constitute a “claim”
- § 12:9 —The claim must be made against an insured
- § 12:10 —The claim must be for a wrongful act or for an occurrence
- § 12:11 —Claims within scope of coverage
- § 12:12 —The claim must not be excluded under the terms of the policy or by endorsement—Contractual liability exclusions
- § 12:13 —The insured must incur loss
- § 12:14 —The claim must not be excluded under the terms of the policy or by endorsement
- § 12:15 —Conduct exclusions
- § 12:16 ——Fraudulent, dishonest, wilful or criminal
- § 12:17 ——Personal profit
- § 12:18 ——Money laundering
- § 12:19 ——Professional services
- § 12:20 Analysis of D & O Insurance—The claim must not be excluded under the terms of the policy or by endorsement
- § 12:21 ——Claims “based upon, arising from” litigation specifically referenced in policy
- § 12:22 Analysis of D & O policy provisions—The claim must not be excluded under the terms of the policy or by endorsement—Exclusions due to other policies
- § 12:23 ——“Other insurance” clause of D & O policy and commercial general liability policy
- § 12:24 ——Exclusions relating to issues of public policy or areas of difficult exposure—The insured versus insured exclusion
- § 12:25 ——Contract based exclusions
- § 12:26 ——The regulatory exclusion
- § 12:27 ——The prior acts exclusion
- § 12:28 ——The antitakeover exclusion
- § 12:29 ——Tax-exempt bond exclusion
- § 12:30 ——Exclusions—Shareholder exclusion
- § 12:31 Creditor exclusion
- § 12:32 Analysis of D & O policy provisions—The claim must not be excluded under the terms of the policy or by endorsement—Endorsements
- § 12:33 ——Caselaw discussion
- § 12:34 —Condition precedent
- § 12:35 —The insurer must be notified
- § 12:36 ——Sufficient notice

TABLE OF CONTENTS

§ 12:37	— —Within reasonable time
§ 12:38	—Loss must be in excess of the retention amount and not within any applicable co-insurance percentage
§ 12:39	— —Retentions
§ 12:40	— —Co-insurance
§ 12:41	Defense of litigation
§ 12:42	—The duty to defend
§ 12:43	— —Caselaw discussion
§ 12:44	—Choice of counsel
§ 12:45	— —Caselaw discussion
§ 12:46	—The duty to advance expenses
§ 12:47	— —Caselaw discussion
§ 12:48	—Allocation
§ 12:49	— —Settlement issues
§ 12:50	Discovery, change of control and cancellation
§ 12:51	—Discovery or extended reporting
§ 12:52	—Change of control
§ 12:53	— —Caselaw discussion
§ 12:54	—Cancellation or rescission—Cancellation at discretion of the parties
§ 12:55	— —Cancellation on bankruptcy of insured corporation
§ 12:56	— —De facto cancellation—The Kemmerer case
§ 12:57	— —Rescission on account of misrepresentations by insured
§ 12:58	— — —The case of the innocent insured
§ 12:59	Structuring a Side A policy
§ 12:60	Entity policies for publicly traded companies
§ 12:61	—Securities claims
§ 12:62	The Private Securities Litigation Reform Act of 1995
§ 12:63	—Effect of the Reform Act on D & O insurance rates
§ 12:64	—Effect of the Reform Act on D & O policy terms and conditions
§ 12:65	— —State of mind requirements
§ 12:66	— —The relationship between the Reform Act and the corporate retention
§ 12:67	— —The effect of the proportionate liability test on policy exclusions
§ 12:68	— —The effect of the damage cap on coverage for crisis communication fees
§ 12:69	Industry-specific policy forms
§ 12:70	—Not-for-profit organizations

DIRECTOR AND OFFICER LIABILITY

- § 12:71 —Health care
- § 12:72 —Educational institutions
- § 12:73 —Privately held companies
- § 12:74 ——Exclusions
- § 12:75 ——Defense provisions
- § 12:76 Insurer's ability to bring legal malpractice claim

CHAPTER 13. NONPROFIT CORPORATIONS

- § 13:1 Introduction
- § 13:2 Types of liability for nonprofit officers and directors
 - § 13:3 —Breaches of fiduciary duty—Duty of loyalty
 - § 13:4 ——Duty of care
 - § 13:5 ——Duty of obedience
 - § 13:6 ——“Derivative actions”
 - § 13:7 —Third-party actions
 - § 13:8 —Government enforcement actions—State regulatory actions
 - § 13:9 ——Federal tax actions—Failure to file tax returns
 - § 13:10 ——Failure to collect and pay taxes
 - § 13:11 ——Penalties for private foundation managers
 - § 13:12 Protection against liability—Liability-limiting statutes
 - § 13:13 —Indemnification and insurance
 - § 13:14 Application of Sarbanes-Oxley principles to nonprofit organizations

Table of Contents

APPENDICES

Appendix 1-1.	Liability-Limiting Statutes
Appendix 1-2.	Delaware Liability-Limiting Statute
Appendix 1-3.	New York Liability-Limiting Statute
Appendix 1-4.	California Liability-Limiting Statute
Appendix 1-5.	Short Form Delaware 102(b)(7) Amendment
Appendix 1-6.	Long Form Delaware 102(b)(7) Amendment
Appendix 1-7.	Short Form New York Liability- Limiting Amendment
Appendix 1-8.	California Liability-Limiting Amendment
Appendix 1-9.	Virginia Liability-Limiting Amendment
Appendix 1-10.	2016 Model Business Corporation Act Charter Option Provision
Appendix 3-1.	SEC Division of Corporation Finance, Compliance and Disclosure Interpretations, Exchange Act Section 16
Appendix 3-2.	SEC Division of Corporation Finance, Compliance and Disclosure Interpretations, Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports
Appendix 3-2.1.	SEC Compliance & Disclosure Interpretation of Regulation S-K
Appendix 3-3.	Sarbanes-Oxley Section 404: Guidance for Smaller Public Companies
Appendix 3-4.	SEC Division of Corporation Finance Denying Proposal To Amend Bylaws To Minimize Indemnification of Directors
Appendix 3-5.	Staff Observations in the Review of

DIRECTOR AND OFFICER LIABILITY

	Executive Compensation Disclosure Division of Corporation Finance
Appendix 3-6.	Listing Standards for Clawing Back Erroneously Awarded Executive Compensation
Appendix 3-7.	SEC Insurance Industry Summary Regarding Crowdfunding
Appendix 3-8.	SEC Survey Results Regarding General Solicitation and Advertising of Private Placement Securities and Directors and Officers Liability Insurance Issues
Appendix 3-9.	Guidance on Disclosure Obligations Regarding Coronavirus
Appendix 4-1.	State Indemnification and Advancement of Expenses Statutes
Appendix 6-1.	Office of the Comptroller of the Currency Guidelines for Directors' Responsibilities and Managements Role in National Banks and Federal Savings Associations
Appendix 6-2.	<i>[Reserved]</i>
Appendix 7-1.	FDA Special Procedures and Considerations for Park Doctrine Prosecutions
Appendix 9-1.	Model Indemnification Charter or Bylaw Provisions
Appendix 9-2.	Model Charter or Bylaw Indemnification Provisions for Delaware Corporation
Appendix 9-3.	Examples of Charter or Bylaw Indemnification Provisions
Appendix 9-4.	Examples of Charter or Bylaw Indemnification Provisions—Bylaws of International Securities Exchange, Inc.
Appendix 9-5.	Examples of Charter or Bylaw Indemnification Provisions—Bylaws of Bats Exchange, Inc.
Appendix 9-6.	Example of Bylaw or Charter Provision Providing for Contribution and Accompanying Proxy Statement Description

TABLE OF CONTENTS

Appendix 9-6A.	Examples of Limitation of Liability And Indemnification Provision in Articles of Incorporation, Maryland Corporations
Appendix 9-6B.	Examples of Limitation of Liability and Indemnification Provision in Articles of Incorporation, Delaware Corporations
Appendix 9-7.	Examples of Limited Liability Company Indemnification Provisions
Appendix 10-1.	Sample Proxy Statement Proposing Expanded Indemnification Charter or Bylaw Provisions
Appendix 10-2.	Sample Proxy Statement Proposing Indemnity Agreements
Appendix 10-3.	Sample Proxy Statement Proposing Indemnity Agreements
Appendix 10-4.	Examples of Additional Protection Contracts
Appendix 10-5.	Sample indemnification clauses in employment agreements
Appendix 10-6.	Example of a Quasi-Insurance Indemnity Agreement
Appendix 10-7.	Examples of director and officer insurance and indemnification clauses
Appendix 11-1.	Example of an Indemnification Trust Agreement
Appendix 11-2.	Example of an Indemnification Trust Combined with an Indemnification Agreement
Appendix 11-3.	Indemnification Agreement—Marketer of semifinished metal products
Appendix 12-1.	Directors' and Officers' Liability Insurance Forms—AIG/National Union
Appendix 12-2.	Executive Protection Policy Form—Chubb & Son/Federal
Appendix 12-3.	Directors' and Officers' Liability Insurance Forms—Executive Risk/Aetna
Appendix 12-4.	Examples of D & O Policy Application Forms—Executive Risk/Aetna

DIRECTOR AND OFFICER LIABILITY

Appendix 12-5.	Example of D & O Policy Application Forms—AIG/National Union
Appendix 12-6.	Examples of D & O Application Forms—Chubb & Son/Federal
Appendix 12-7.	Examples of Entity Coverage Endorsement Forms
Appendix 12-8.	Examples of Other Types of Management Liability Policy Forms
Appendix 12-9.	Examples of Private Company Directors' and Officers' Liability Policy and Application Forms
Appendix 12-10.	Example of executed D & O Insurance Policy for Hospital
Appendix 12-11.	Example of executed D & O Insurance Policy for Insurance Company
Appendix 12-12.	Example of executed Excess D & O Insurance Policy for Manufacturer of Medical Devices
Appendix 13-1.	Example of Not for Profit Directors' and Officers' Liability Policy and Application Forms—Executive Risk/Aetna
Appendix 13-2.	Example of Not for Profit Directors' and Officers' Liability Policy and Application Forms—Chubb/Federal
Appendix 13-3.	Example of Not for Profit Directors' and Officers' Liability Policy and Application Forms—AIG/National Union
Appendix 13-4.	Example of Not for Profit Directors' and Officers' Liability Policy and Application Forms—Affinity Insurance
Appendix 13-5.	Example of Not for Profit Directors' and Officers' Liability Policy and Application Forms—Texas Association of Museums
Appendix 13-5A.	Example of Not for Profit Directors' and Officers' Liability Policy—Emergency shelter and transitional housing
Appendix 13-6.	Terrorism Insurance Coverage—Policy Issued by Chubb Group Insurance Companies

TABLE OF CONTENTS

Appendix 13-7.	AFL-CIO Proxy Voting Guidelines
Appendix 14-1.	Federal Deposit Insurance Corporation
Appendix 15-1.	Guide for establishing proactive D&O liability insurance and indemnification program
Appendix 16-1.	Department of Justice Memorandum on Individual Accountability for Corporate Wrondgoing
Appendix 16-2.	Department of Justice Memorandum on Individual Accountability for Corporate Wrondgoing—Frequently asked questions: Corporate Cooperation and the Individual Accountability Policy
Appendix 16-3.	Department of Justice, U.S. Attorney's Manual, Principals of Prosecution of Business Organizations
Appendix 17-1.	Complaint for failure to obtain D&O Insurance
Appendix 17-2.	Complaint for Breach of Duty to Defend and/or Advance Defense Costs
Appendix 17-3.	Complaint by Insured for Declaratory Judgment of No Obligation to Pay Insured
Appendix 17-4.	Complaint for Declaratory Judgment that Insurer had Duty to Defend and Indemnify Insured Bank Officer
Appendix 17-5.	Complaint for Breach of Contract and Bad Faith Denial of Coverage
Appendix 17-6.	Legislative summary of Delaware SB-21, signed into law on March 25, 2025
Appendix 17-7.	Shareholder Proposals: SEC Staff Legal Bulletin No. 14M (CF) (February 12, 2025)
Appendix 17-8.	Sample Indemnification Agreement—Tesla Inc. (Filed September 5, 2025)

Table of Laws and Rules

Table of Cases

Index