

Table of Contents

CHAPTER 1. DEFINING THE RISK

I. INTRODUCTION

- § 1:1 In general
- § 1:2 Historical perspective
- § 1:3 Ubiquity of claims activity

II. TYPES OF CLAIMS

- § 1:4 Shareholder derivative actions
- § 1:5 Direct actions
- § 1:6 Class actions
- § 1:7 Distinguishing different types of claims

III. CAPACITY

- § 1:8 In general
- § 1:9 Personal expenses
- § 1:10 Transactions occurring before or after the executive's tenure
- § 1:11 Executive's dealings in the corporation's securities
- § 1:12 Litigation incidental to struggles for control
- § 1:13 —Poison pill
- § 1:14 —Lock-up option
- § 1:15 —Stock repurchases and other stock plans
- § 1:16 —Golden parachutes
- § 1:17 —Continuing director provisions
- § 1:18 —Assumption of pre-existing obligations
- § 1:19 —Breakup situations
- § 1:20 —Challenging elections
- § 1:21 —Removal from office
- § 1:22 —Deadlock
- § 1:23 —Proxy contest
- § 1:24 Summary

IV. DERIVATIVE CLAIMS ALLEGING BREACH OF FIDUCIARY DUTY

A. FIDUCIARY DUTIES OF DIRECTORS

- § 1:25 In general
- § 1:26 Duty of care

- § 1:27 —Disclosure
- § 1:28 —Inquiry
- § 1:29 —Oversight
- § 1:30 Duty of loyalty
- § 1:31 —Good faith
- § 1:32 —Conflict of interest
- § 1:33 —Usurpation of corporate opportunity
- § 1:34 —Competing with corporation
- § 1:35 —Sale of shares
- § 1:36 Duty of obedience
- § 1:37 Expanded duties
- § 1:38 —Banking corporations
- § 1:39 —Creditors
- § 1:40 —Insolvency
- § 1:41 —Zone of insolvency
- § 1:42 —Change of control

B. FIDUCIARY DUTIES OF OFFICERS

- § 1:43 In general
- § 1:44 Who is an officer?

V. NON-DERIVATIVE CLAIMS

A. NON-STATUTORY CLAIMS

- § 1:45 In general
- § 1:46 Debts and contracts
- § 1:47 Tort claims

B. STATUTORY CLAIMS

- § 1:48 In general
- § 1:49 Antitrust
- § 1:50 Employment
- § 1:51 —Civil rights
- § 1:52 — —Title VII
- § 1:53 — —ADA
- § 1:54 — —ADEA
- § 1:55 — —FLSA
- § 1:56 — —FMLA
- § 1:57 Environment
- § 1:58 ERISA
- § 1:59 Fraud, false statements, and other criminal catchalls
- § 1:60 Foreign Corrupt Practices Act
- § 1:61 OSHA

TABLE OF CONTENTS

§ 1:62	RICO
§ 1:63	Securities
§ 1:64	—Securities Act
§ 1:65	—Exchange Act
§ 1:66	— —Section 10(b)
§ 1:67	— —Section 14(a)
§ 1:68	— —Section 16(b)
§ 1:69	—Controlling persons
§ 1:70	—PSLRA
§ 1:71	—Sarbanes-Oxley Act
§ 1:72	—Dodd-Frank
§ 1:73	—JOBS Act
§ 1:74	Tax

VI. THEORIES OF LIABILITY

§ 1:75	Participation
§ 1:76	Agency
§ 1:77	Piercing the corporate veil
§ 1:78	Responsible corporate officer doctrine
§ 1:79	Public welfare offense doctrine
§ 1:80	Conclusion

CHAPTER 2. DIMINISHING THE RISK

I. INTRODUCTION

§ 2:1	In general
§ 2:2	Philosophical underpinning

II. GENERAL LITIGATION STANDARDS

§ 2:3	General standards
§ 2:4	Jurisdiction
§ 2:5	Venue
§ 2:6	Standing
§ 2:7	Time limitations
§ 2:8	—Statutes of limitation and repose
§ 2:9	—Laches
§ 2:10	—Estoppel by silence
§ 2:11	Pleading standards
§ 2:12	—F.R.C.P. 9
§ 2:13	—PSLRA
§ 2:14	Damage caps

III. BARRIERS TO SHAREHOLDER DERIVATIVE LAWSUITS

- § 2:15 In general
- § 2:16 Duty of care statutes
- § 2:17 —Takeovers
- § 2:18 Business judgment rule
- § 2:19 —Enhanced scrutiny/Entire Fairness
- § 2:20 —Antitakeover measures
- § 2:21 — —Case illustrations
- § 2:22 —Disinterested directors
- § 2:23 —Defense against allegations of illegal foreign payments
- § 2:24 —Defense against allegations of breach of fiduciary duty
- § 2:25 —Special litigation committees
- § 2:26 Exculpatory provisions
- § 2:27 Non-constituency statutes
- § 2:28 Security for expenses statutes
- § 2:29 Conflict of interest statutes
- § 2:30 Fair and adequate representation
- § 2:31 —Illustrations
- § 2:32 Contemporaneous ownership rule/Continuous ownership doctrine
- § 2:33 Demand requirement
- § 2:34 —Demand futility
- § 2:35 —Executive exculpated from liability
- § 2:36 —Impact of amended complaint
- § 2:37 —Technical requirements
- § 2:38 —Illustrations—Sufficient pleading of demand futility
- § 2:39 — —Insufficient pleading of demand futility
- § 2:40 — —Claims arising from backdating stock options
- § 2:41 — —Insufficient pleading of demand futility—
Disinterested directors
- § 2:42 Equitable defenses
- § 2:43 Internal affairs doctrine
- § 2:44 Ratification
- § 2:45 Corporation as litigant
- § 2:46 Corporate interests
- § 2:47 —Control of action by shareholders or corporation
- § 2:48 —Corporation’s right to defend its own interests—
Potential harm outweighing potential recovery
- § 2:49 — —Corporation’s right to resist demands for receivership
- § 2:50 — —Management’s discretion to decide what corporate “interests” require defense

TABLE OF CONTENTS

- § 2:51 — — —Strike suits
- § 2:52 — — —Consultation with shareholders
- § 2:53 — — —Settlements
- § 2:54 Corporate compliance programs

IV. CLAIM EXPENSES

- § 2:55 In general
- § 2:56 Financial burden of defense
- § 2:57 Corporate participation in the common defense
- § 2:58 —Same counsel representing individual managers and corporation
- § 2:59 Conclusion

CHAPTER 3. INDEMNIFICATION

I. COMMON LAW INDEMNIFICATION

- § 3:1 Introduction
- § 3:2 Assessment of expenses against a losing plaintiff: The common law
- § 3:3 —Security-for-expenses statutes
- § 3:4 —Federal securities laws
- § 3:5 Reimbursement of executives: The common law
- § 3:6 Reimbursement of executives in derivative actions: The common law—The director’s dilemma when the law is unclear
- § 3:7 —Right to reimbursement after successful defense
- § 3:8 —The “benefit” fallacy
- § 3:9 —Pros and cons of reimbursement
- § 3:10 —Setting up a reimbursement policy
- § 3:11 — —Practical considerations
- § 3:12 —Settlement
- § 3:13 Litigation not in the right of the corporation
- § 3:14 —The common-law agency rule
- § 3:15 —Voluntary indemnification in the third-party situation

II. STATUTORY INDEMNIFICATION

- § 3:16 Confusion under the common law governing indemnification
- § 3:17 Historical
- § 3:18 Developments
- § 3:19 Testing scope of indemnification statute
- § 3:20 —Who may be indemnified?

INDEMNIFICATION AND INSURANCE

- § 3:21 — —Agents
- § 3:22 —Who may be indemnified—Plaintiffs
- § 3:23 — — —Proxy contests
- § 3:24 — —Director’s service with another corporation
- § 3:25 —Management’s discretion to indemnify
- § 3:26 — —Nonexclusive clause
- § 3:27 — —Indemnification authorized by contract
- § 3:28 — —Directors entitled to indemnification if vindicated
- § 3:29 —Court-ordered indemnification
- § 3:30 —Types of litigation covered
- § 3:31 — —Federal securities actions
- § 3:32 — —RICO
- § 3:33 — —Comprehensive Environmental Response,
Compensation and Liability Act (CERCLA)
- § 3:34 —Expenses covered
- § 3:35 — —Fees for fees
- § 3:36 — —*Pro se* attorneys’ fees
- § 3:37 — —Reasonableness
- § 3:38 —Settlements
- § 3:39 —Appeals
- § 3:40 —ERISA
- § 3:41 —Foreign corporations doing business in state
- § 3:42 —Mergers
- § 3:43 —Permissive or mandatory; Success on the merits
- § 3:44 —Advancement of expenses
- § 3:45 —Checks on discretionary indemnification
- § 3:46 — —Reports to shareholders
- § 3:47 Damages; jury trials
- § 3:48 Demand requirement
- § 3:49 Bankrupt corporations
- § 3:50 Statutes modeled on old Delaware law

III. CONTRACTUAL INDEMNIFICATION

- § 3:51 Scope of typical indemnification agreements
- § 3:52 Exclusivity or non-exclusivity of statutes
- § 3:53 Exclusivity or nonexclusivity of bylaws
- § 3:54 —Indemnification for circumstances not covered by
bylaw terms
- § 3:55 Contractual right
- § 3:56 Construction of bylaw provisions
- § 3:57 Litigation covered
- § 3:58 —CERCLA
- § 3:59 —ERISA
- § 3:60 Costs and expenses covered

TABLE OF CONTENTS

§ 3:61	Advancement of expenses
§ 3:62	—Application in provision of bylaws or articles
§ 3:63	Categories of insiders covered
§ 3:64	Parent and subsidiary corporations
§ 3:65	Limitations on management’s discretion to indemnify
§ 3:66	Corporate participation in defense of insiders
§ 3:67	Adoption of indemnification provisions
§ 3:68	Notifying stockholders of proposed indemnification provision
§ 3:69	Drafting the indemnification provision
§ 3:70	Validity and enforceability of bylaw and other contractual provisions
§ 3:71	—Problems with bylaws taking advantage of statute’s nonexclusive clause
§ 3:72	—Stretching statutes and bylaws to the limit of indemnification: A grey area
§ 3:73	—Advancement of expenses provisions
§ 3:74	Waiver of indemnification provisions
§ 3:75	Legislation enabling bylaws and articles of incorporation to reduce the risk of liability
§ 3:76	Nonprofit corporations
§ 3:77	Limited liability companies
§ 3:78	Conclusion

Appendix 3A. Bylaw Indemnification Provisions

CHAPTER 4. INSURANCE

I. DIRECTORS AND OFFICERS LIABILITY INSURANCE

§ 4:1	In general
§ 4:2	Historical development
§ 4:3	—Premiums
§ 4:4	Claims-made coverage
§ 4:5	Limits of Liability
§ 4:6	Coinsurance and retentions
§ 4:7	Indemnity policy as opposed to liability policy; Duty to defend; Settlement duties
§ 4:8	Structure of D&O policies
§ 4:9	Insuring clauses
§ 4:10	Definitions
§ 4:11	Definitions—Claim
§ 4:12	Definitions—Directors and officers
§ 4:13	Definitions—Wrongful act
§ 4:14	Definitions—Loss

- § 4:15 Exclusions
- § 4:16 —Matters deemed “uninsurable”
- § 4:17 —Dishonesty
- § 4:18 — —Effect of settlements
- § 4:19 —Intentional misconduct
- § 4:20 —Securities law claims
- § 4:21 —“Bump Up”
- § 4:22 —Bodily injury
- § 4:23 —Regulatory agency claims
- § 4:24 —“Insured v. insured” claims
- § 4:25 —Excessive compensation
- § 4:26 —Personal profit
- § 4:27 —Professional services
- § 4:28 —Prior acts
- § 4:29 —Prior & pending litigation
- § 4:30 —Prior knowledge
- § 4:31 —Contracts
- § 4:32 —Franchisees
- § 4:33 —Environmental claims
- § 4:34 —Other insurance
- § 4:35 Exclusionary endorsements
- § 4:36 Allocation
- § 4:37 Notice
- § 4:38 Discovery
- § 4:39 Cancellation
- § 4:40 Cooperation
- § 4:41 Construction of insurance policies
- § 4:42 —Settlements as losses
- § 4:43 —Cases interpreting “losses”
- § 4:44 Severability of interest
- § 4:45 Denial of insurer liability based on application defenses
- § 4:46 Penalties upon insurer’s refusal to pay claim
- § 4:47 Coverage of advances pending adjudication or settlement
- § 4:48 Excess/secondary coverage
- § 4:49 Reinsurance
- § 4:50 Nonprofit corporations
- § 4:51 Bankrupt corporations
- § 4:52 Conclusion

II. OTHER FORMS OF INSURANCE

A. GENERAL LIABILITY INSURANCE

- § 4:53 In general

TABLE OF CONTENTS

- § 4:54 General liability insurance—Who is covered
- § 4:55 —What is covered
- § 4:56 —Exclusions

B. EMPLOYMENT PRACTICES LIABILITY INSURANCE

- § 4:57 In general
- § 4:58 Employment practices liability insurance—What is covered
- § 4:59 —Who is covered
- § 4:60 —Exclusions

C. ENVIRONMENTAL IMPAIRMENT LIABILITY INSURANCE

- § 4:61 In general
- § 4:62 Historical development
- § 4:63 Types of EIL policies
- § 4:64 —Site specific policies—What is covered?
- § 4:65 —Site-specific policies—Who is covered?
- § 4:66 — —Claims-made coverage
- § 4:67 — —Defense costs
- § 4:68 — —Definitions
- § 4:69 — —Exclusions

D. FIDUCIARY LIABILITY INSURANCE

- § 4:70 In general
- § 4:71 Fiduciary liability insurance—Claims made coverage
- § 4:72 —Who is covered?
- § 4:73 —Defense
- § 4:74 —Exclusions
- § 4:75 Conclusion

CHAPTER 5. FEDERAL LAW AFFECTING INDEMNIFICATION AND INSURANCE

- § 5:1 Introduction
- § 5:2 The Investment Company Act of 1940
- § 5:3 —State policy vs. The Investment Company Act
- § 5:4 The Foreign Corrupt Practices Act
- § 5:5 Indemnification policies under federal securities laws
- § 5:6 —Validity of indemnification pursuant to state law and/or contract in the light of federal public policy considerations

INDEMNIFICATION AND INSURANCE

- § 5:7 —Indemnification of legal expenses of an unsuccessful defense
- § 5:8 —Indemnification of legal expenses of a successful defense
- § 5:9 —Liability of persons “about to become directors”
- § 5:10 —The SEC’s use of the acceleration power to enforce policy on indemnification against liability
- § 5:11 Contribution under federal securities laws—Statutory provisions for contribution
- § 5:12 —Implied contribution
- § 5:13 Indemnification policies under federal securities laws—
Other liabilities under the federal securities laws
- § 5:14 —Disclosure to shareholders
- § 5:15 Bankruptcy Code: Allowance and subordination of indemnity claims
- § 5:16 Dodd-Frank Wall Street Reform and Consumer Protection Act
- § 5:17 National banks
- § 5:18 Financial Institutions Reform, Recovery and Enforcement Act (FIRREA)
- § 5:19 Crime Control Act
- § 5:20 Employee Retirement Income Security Act of 1974 (ERISA)
- § 5:21 Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)
- § 5:22 The Sarbanes-Oxley Act of 2002
- § 5:23 Conclusion

CHAPTER 6. FEDERAL TAXATION OF INDEMNIFICATION AND INSURANCE

- § 6:1 Introduction
- § 6:2 Deduction of litigation expenses by the corporation
- § 6:3 —Criminal and other actions by third parties
- § 6:4 — —Successful defense of criminal actions
- § 6:5 — —Unsuccessful defense of third-party suits
- § 6:6 — —Settlement of third-party suits
- § 6:7 —Shareholder derivative suits
- § 6:8 — —Successful defense of derivative suits
- § 6:9 — —Unsuccessful defense of derivative suits
- § 6:10 — —Compromise settlements of derivative suits
- § 6:11 —Limits on deductibility of litigation expenses
- § 6:12 Indemnification payments taxable as income to officers and directors
- § 6:13 Deduction of litigation expenses by officers and directors

TABLE OF CONTENTS

- § 6:14 Tax effects of D&O insurance
- § 6:15 —Nonprofit corporations
- § 6:16 Conclusion

Table of Laws and Rules

Table of Cases

Index