

Table of Contents

<i>Preface</i>	xxvii
<i>Acknowledgments</i>	xxix
ASSIGNMENT 1. Introduction and Overview	1
A. Entity	2
1. Entity Types and Terminologies	2
2. Entity Formation	4
3. Entity Acrobatics	5
4. Entity Structures	7
5. Limited Liability	7
B. The Business Deal	8
1. Entity Decision Making	9
2. Fiduciary Duties	10
3. The Business Judgment Rule	12
4. Entity Finance	12
5. Investment Transferability	14
C. Agents, Officers, and Employees	15
1. Agents	15
2. Officers	16
3. Employees	16
Problem Set 1	17
Chapter 1: Agency	19
ASSIGNMENT 2. Acting Through Others	19
A. The Principal-Agent Relationship	20
<i>Northern Health Facilities v. Batz</i>	20
B. Attribution of Agents' Actions to Principals	23
1. Actual Authority	24
2. Apparent Authority	24
<i>Clark Resources, Inc. v. Verizon Business Network Services, Inc.</i>	25
3. Inherent Authority	27
4. Ratification	28
5. Estoppel	29
C. Liability for Agent-Made Contracts	29
1. Liability on the Contract	29
<i>Winer v. Valentino</i>	30
2. Warranty of Authority	31
D. Fiduciary Duties	31
<i>Wall Systems, Inc. v. Pompa</i>	32
Problem Set 2	33

ASSIGNMENT 3. Binding Entities	37
A. Managerial Capacities	37
1. Directors	37
2. Officers	38
<i>Siena at Old Orchard Condominium Association</i>	
<i>v. Siena at Old Orchard, LLC</i>	38
3. Partners	41
4. Members	42
5. Managers	42
B. Binding the Entity	43
1. Legal Opinions	43
2. The MegaLoft Transaction	44
California Third-Party Legal Opinion	44
3. Recorded Statements of Authority	47
C. Coprincipals and Dual Agency	48
<i>United States v. Bestfoods</i>	49
Problem Set 3	52
Chapter 2: Entities	57
ASSIGNMENT 4. Entity Names and Structures	57
A. Entity Names	57
1. Registered Entity Names	58
2. Unregistered Entity Names	59
B. Trade Names, Fictitious Names, and Trademarks	59
C. Employer and Independent Contractor Liability	62
D. Independent Contractor Structures	63
1. Franchises	63
<i>Mobil Oil Corporation v. Bransford</i>	64
<i>eTeam, Inc. v. Hilton Worldwide Holdings, Inc.</i>	65
2. Hospitals	68
<i>Cefaratti v. Aranow</i>	69
Problem Set 4	71
ASSIGNMENT 5. The Entity Regulatory System	75
A. Entity Regulation	75
B. The Internal Affairs Doctrine	76
<i>Mancinelli v. Momentum Research, Inc.</i>	77
<i>Tyco Internat'l, Ltd. v. Kozlowski</i>	81
C. Default, Enabling, and Mandatory Rules	83
D. Charter Competition	84
E. The Effect of Competition on Entity Law	86
Lynn M. LoPucki, Courting Failure: How Competition for	
Big Cases Is Corrupting the Bankruptcy Courts	86

<i>Jones Apparel Group, Inc. v. Maxwell Shoe Co., Inc.</i>	88
Problem Set 5	91
ASSIGNMENT 6. Entity Formation and Representation	95
A. The Entity Formation Process	95
1. The Formation of Chartered Entities	95
2. The Formation of Partnerships	99
<i>Ziegler v. Dahl</i>	99
B. Promoters' Contracts	103
1. Liability of the Chartered Entity	103
2. Liability of the Promoter	103
3. Liability of Third Parties	105
C. The Lawyer's Role	106
<i>Manion v. Nagin</i>	106
Rule 1.13 Organization as Client	108
Problem Set 6	109
ASSIGNMENT 7. Mergers and Acquisitions	115
A. Statutory Mergers	115
1. The Basic Transaction	115
2. Merger Procedure	117
3. Appraisal Rights	118
4. Small-scale Mergers	120
5. Short-form Mergers	120
B. Acquisitions	121
1. Share Purchases	121
2. Tender Offers	121
3. Triangular Mergers	122
4. Share Exchanges	122
C. Intermediate-form Mergers	124
Problem Set 7	125
ASSIGNMENT 8. Other Entity Acrobatics	127
A. Asset Sales	127
B. De Facto Mergers	129
<i>Arrowhead Capital Finance, Ltd. v. Seven Arts</i>	
<i>Entertainment, Inc.</i>	130
C. Spin-offs	132
D. Reincorporation	133
E. Conversion	134
<i>Fisher v. Tails, Inc.</i>	135
Problem Set 8	138
Chapter 3: Limited Liability	141
ASSIGNMENT 9. Liability, Limited Liability, and Veil Piercing	141

A. The Liability System	141
B. Limited Liability	142
C. Veil Piercing	145
1. The Two-Pronged Test	145
2. The List of Factors	147
<i>Country Contractors, Inc. v. A Westside Storage of Indianapolis, Inc.</i>	148
<i>Verni v. Harry M. Stevens, Inc.</i>	154
3. Choice of Law for Veil Piercing	156
D. Limited Liability Strategies	156
1. Judgment-Proofing	157
2. Entity Contracting	157
3. Obtaining Jurisdiction	158
Problem Set 9	158
ASSIGNMENT 10. Other Theories for Entity Disregard	161
A. Veil-Piercing Extensions	161
1. Equitable Ownership	161
2. Reverse Veil Piercing	162
3. Enterprise Liability	163
B. Agency, Ratification, and Aiding-and-Abetting Liability	165
<i>Bowoto v. Chevron Texaco Corp.</i>	165
C. Partnership and Partnership by Estoppel	169
1. Partnership	169
2. Partnership by Estoppel	169
In re Cay Clubs	170
D. Substantive Consolidation	172
In re LLS America, LLC	173
Problem Set 10	174
Chapter 4: Entity Finance	177
ASSIGNMENT 11. Capital Structure	177
A. Debt	177
1. Debt Securities	178
2. Contingent Debt	179
3. Secured Debt	179
4. The Absolute Priority Rule	180
B. Equity	180
1. Share Value as a Reflection of Asset Value	180
2. Dilution	181
3. Preemptive Rights	182
4. Common and Preferred Shares	182
C. Balance Sheets	183
1. Corporate Capital Accounts	184

2. The Catalina Restaurant Purchase	184
3. Partnership Capital Accounts	187
D. Whose Interests Are Managers Supposed to Serve?	188
<i>In re Trados Inc. Shareholder Litigation</i>	189
Problem Set 11	192
ASSIGNMENT 12. Dividends and Distributions	195
A. Sharing Distributions	195
1. Sharing Concepts	195
2. Default Rules	196
3. Modification of Default Rules	197
<i>Robertson v. Jacobs Cattle Company</i>	198
B. Manager Discretion Regarding Distributions	200
C. Restrictions on Payment of Distributions	202
1. DGCL Restrictions on Dividends that Impair Capital	202
2. Revaluations	204
3. Other Entity Law Restrictions on Distributions	205
4. Fraudulent Transfer Laws	205
5. Share Repurchase or Redemption	206
6. Dividends in Leveraged Buyouts	206
D. Manager Liability for Unlawful Distributions	207
E. Stock Dividends and Splits	208
Problem Set 12	208
ASSIGNMENT 13. Capital Investment and Withdrawal	213
A. Investment	214
1. Private Sale of Investment Rights	214
2. Initial Public Offerings	215
B. Dissolution and Winding Up	216
1. Voluntary Dissolutions	217
2. Administrative Dissolution	219
<i>Pannell v. Shannon</i>	219
3. Judicial Dissolution	222
4. Winding Up	223
5. Termination	224
C. Dissociation	224
1. Dissociation Causes	225
2. Dissociation Effects	225
D. Buyout	226
1. The Entity's Right to Buy	226
2. The RUPA Buyout Procedure	226
3. Buyout Agreements	227
4. Cash-out Mergers	228
Problem Set 13	228

Chapter 5: Investor Decision Making	233
ASSIGNMENT 14. The Scope of Investor Decision Making	233
A. One-Tier Decision Making	233
1. Partnerships	234
2. LLCs	234
3. Corporations	235
4. Limited Partnerships	235
B. Two-Tier Decision Making	235
C. Decision Making in Public Corporations	236
1. Election and Removal of Managers	237
<i>Johnson v. Tago, Inc.</i>	238
2. Fundamental Decisions or Transactions	240
3. Ratification of Board Action	240
4. Corporate Bylaw Amendments	241
<i>CA, Inc. v. AFSCME Employees Pension Plan</i>	241
5. Shareholder Resolutions	244
D. Proxy Access	245
1. State Law	245
2. Federal Law	246
E. Decision Making in Public Limited Partnerships and LLCs	249
Problem Set 14	250
ASSIGNMENT 15. Investor Voting and Consent	253
A. Voting Rights	253
1. The Allocation of Voting Rights	253
2. Conflicted Shareholders	254
3. Institutional Investors	255
4. Empty Voting	255
In re Dole Food Company, Inc.	256
B. Voting Procedures	258
1. Private Company Voting Procedures	258
2. The Indirect Securities Holding System	260
3. Public Company Voting Procedures	262
C. Consent Procedures	266
D. Voting Systems	267
1. Straight Voting	267
2. Class Voting	267
3. Cumulative Voting	268
4. Relationship among Voting Systems	268
E. Voting Alliance Devices	269
1. Voting Trusts	269
2. Voting Agreements	269
3. Irrevocable Proxies	269
Problem Set 15	270

ASSIGNMENT 16. Investor Information Access	273
A. Duties to Create and/or Maintain Records	273
1. MBCA	273
2. DGCL	274
3. Partnerships, LLCs, and Limited Partnerships	274
B. Duty to Disclose Information without Request	274
1. Public Companies	274
2. Private Companies	276
C. Duty to Disclose Information on Request	278
1. Corporations	278
<i>Pagett v. Westport Precision, Inc.</i>	279
<i>Seinfeld v. Verizon Communications, Inc.</i>	283
2. Partnerships, LLCs, and Limited Partnerships	287
D. Shareholder Lists	288
1. State Law	289
2. Federal Law	289
Problem Set 16	290
ASSIGNMENT 17. Investors' Fiduciary Duties	293
A. The Controlling Investor Rule	294
1. The Nature of Control	295
<i>Corwin v. KKR Financial Holdings LLC</i>	295
2. The Duty's Beneficiaries	297
3. The Entire Fairness Standard	298
4. Strategies for Avoidance of the Entire Fairness Standard	300
<i>Kahn v. M & F Worldwide Corp.</i>	300
5. Coercion	304
6. The Irrelevance of Entity Type	304
B. The Duty-to-Coinvestors Rules	305
1. Freeze-outs	305
<i>McLaughlin v. Schenk</i>	306
2. Routine Closely Held Entity Governance	308
Problem Set 17	309
Chapter 6: Manager Decision Making	313
ASSIGNMENT 18. The Manager Decision-Making Process	313
A. Boards of Directors	313
1. Board Existence	314
2. Board Role	314
3. Board Composition	316
4. Board Authority and Delegation	317
5. Board Procedures	317
6. Board Committees	318
<i>In re Walt Disney Co. Derivative Litigation</i>	319

B. LLC Managers and General Partners	323
1. LLC Managers	323
2. General Partners	323
3. Manager Decision-Making Procedures in the Absence of Default Procedures	324
C. Manager Access to Information	324
<i>Chammas v. NavLink, Inc.</i>	324
Problem Set 18	329
ASSIGNMENT 19. Business Judgment and the Duty of Care	333
A. The Duty of Care	333
B. The Business Judgment Rule	334
1. Elements of the Rule	335
2. Excuse of Bad Judgment	338
<i>Freedman v. Adams</i>	339
3. Policy Arguments	341
4. Extent of the Rule's Protection	342
C. Exculpation	343
D. Reliance in Decision Making	345
1. Reliance in Corporations	346
<i>Beatrice Corwin Living Irrevocable Trust v. Pfizer, Inc.</i>	347
2. Reliance in Partnerships, LLCs, and Limited Partnerships	348
Problem Set 19	348
ASSIGNMENT 20. Conflicted Decision Making	353
A. Conflicts of Interest	353
1. Conflict Types	354
2. Structural Bias	354
3. Delaware: Disinterestedness and Independence	355
<i>Orman v. Cullman</i>	355
4. MBCA Conflicts	357
5. Uniform Act Conflicts	358
B. Approval of Conflicted Transactions	358
1. Director Approval	358
<i>Benihana of Tokyo, Inc. v. Benihana, Inc.</i>	359
2. Shareholder Approval	364
3. Judicial Approval	364
4. Conflict Approval in Partnerships, LLCs, and Limited Partnerships	365
5. Modification of the Conflicted Transaction Approval Process	365
C. Transaction Validity	366
D. Manager Liability	367
1. Manager Liability after Disinterested Approval or Entire Fairness	367
2. Protections from Liability	368

3. Remedies Available	368
Problem Set 20	369
ASSIGNMENT 21. The Opportunity Doctrine	373
A. To Whom Does an Opportunity Belong?	374
<i>Broz v. Cellular Info. Sys., Inc.</i>	374
1. Financial Ability	375
2. Line-of-Business	376
3. Interest or Expectancy	376
4. Conflict with the Entity	377
5. Personal or Fiduciary Capacity	377
6. Essential to the Entity	378
7. Use of Entity Resources	379
B. Rejection and Renunciation of Opportunities	379
1. Authorization to Take Specific, Identified Opportunities	379
<i>Stevens v. Anesthesiology Consultants of Cheyenne, LLC</i>	380
2. Authorization to Take Opportunities of a Category	382
Certificate of Incorporation of Prosper Marketplace, Inc.	383
C. Remedies for Usurpation	383
D. Other Liability Theories	384
E. Covenant of Good Faith and Fair Dealing	385
<i>Nemec v. Shrader</i>	387
Problem Set 21	388
ASSIGNMENT 22. Mergers and Acquisitions Decision Making	393
A. Fiduciary Duties in Transactions	393
B. The Acquisition Process	395
C. Statutory Restrictions on Acquisition	396
1. State Antitakeover Laws	396
2. Williams Act	397
D. Types of Defensive Measures	398
1. Poison Pill	398
2. Competing Offers	399
3. Change of Control Provisions	399
4. Director Entrenchment	400
5. Greenmail	400
E. The Validity of Defensive Measures	401
<i>Third Point LLC v. Ruprecht</i>	403
F. Types of Deal Protections	406
1. Manager Support	406
2. No-Shop	406
3. Right of First Refusal	406
4. Breakup Fees	407

5. Lock-ups	407
6. Material Adverse Change	407
G. The Validity of Deal Protections	408
Problem Set 22	409
ASSIGNMENT 23. Oversight, Compliance, and Investigation	413
A. Oversight	413
1. Delegation	414
2. Internal Controls	415
3. The Law Governing Oversight	415
<i>In re Puda Coal Securities Inc., Litigation</i>	417
4. Oversight Law in Procedural Context	418
<i>Gubricky on behalf of Chipotle Mexican Grill, Inc. v. Ells</i>	419
B. Compliance Programs	423
1. Motivations to Establish Compliance Programs	423
2. Compliance Dynamics	424
<i>Gadinis & Miazad, The Hidden Power of Compliance</i>	425
C. Internal Investigations	428
D. Whistleblowers	429
<i>Digital Realty Trust, Inc. v. Somers</i>	429
Problem Set 23	431
Chapter 7: Enforcement of Entity Law	433
ASSIGNMENT 24. Investor Litigation Procedures	433
A. Derivative Actions Distinguished from Direct Actions	433
1. Derivative Actions	433
2. Direct Actions	434
3. The Distinction Between Derivative Actions and Direct Actions	434
<i>Tooley v. Donaldson, Lufkin & Jenrette, Inc.</i>	435
4. The Derivative-Remedy Problem	435
<i>Carstarphen v. Milsner</i>	436
B. Class Actions	438
C. The Investor Litigation Cycle	438
1. Plaintiffs, Attorneys, and Incentives	439
<i>Americas Mining Corp. v. Theriault</i>	440
2. The Discovery of Wrongdoing	443
3. Right to Sue	444
4. Choice of Court	445
<i>Boilermakers Local 154 Retirement Fund v. Chevron Corporation</i>	445
5. The Practical Necessity of Settlement	447
Problem Set 24	448

ASSIGNMENT 25. Control of Investor Litigation	453
A. Derivative Actions	453
1. The Investor's Demand	454
2. The Entity's Response	454
3. Wrongful Refusal	455
4. Universal Demand and Demand Futility Systems	456
5. Special Litigation Committees	457
Matter of DISH Network Derivative Litigation	459
B. Class Actions	462
C. Multiforum Litigation	462
1. Issue Preclusion	462
<i>California State Teachers' Retirement System v. Alvarez</i>	463
2. Forum Selection Bylaws	467
3. Arbitration Bylaws	467
Problem Set 25	468
ASSIGNMENT 26. Indemnification, Advancement, and Insurance	471
A. Indemnification	472
1. Mandatory Indemnification	472
2. Permitted and Prohibited Indemnification	472
3. Defeating Indemnification Policy	474
<i>Sandt v. Energy Maintenance Services Group I, LLC</i>	475
B. Advancement	478
<i>Aleynikov v. Goldman Sachs Group, Inc.</i>	479
C. Insurance	482
D. Investor Litigation's Function	483
Problem Set 26	484
Appendix	487
Directors, Officers, and Corporation Liability Insurance Policy	487
Chapter 8: Share and Interest Transfer	495
ASSIGNMENT 27. Share and Interest Transferability	495
A. Investment Transferability: Default Rules	496
1. Corporate Shares	496
2. Partnership, LLC, and Limited Partnership Interests	496
B. Methods of Transfer	497
1. The Definition of Securities	498
2. Transfer of Securities under Article 8	499
3. Certification	499
4. Registration	500
<i>Jing Jing v. Weyland Tech, Inc.</i>	501
5. Protected Purchaser Status	504

6. Transfer of Securities or Non-Securities as Security	504
C. Restrictions on Transfer	505
<i>The Capital Group Companies, Inc. v. Timothy D. Armour</i>	506
D. Notice of Restrictions on Transfer	510
Problem Set 27	510
ASSIGNMENT 28. Involuntary Share and Interest Transfers	513
A. Enforcement of Judgments Against Securities	514
1. Certificated Securities	514
<i>Schanck v. Gayhart</i>	515
2. Uncertificated Securities	516
3. Restrictions	517
<i>F.B.I. Farms, Inc. v. Moore</i>	517
B. Judgment Enforcement Against Partnership or LLC Interests	520
1. Charging Order	520
<i>McClandon v. Dakem & Associates, LLC</i>	521
<i>Curci Investments, LLC v. Baldwin</i>	522
2. Foreclosure	524
3. Dissolution	525
C. Security Interest Foreclosure	525
D. Judgment-Proof Entity Structures	525
1. LLCs and Limited Partnerships as Judgment-Proofing Devices: An Illustration	526
2. The Timothy Blixseth Judgment-Proofing Structure	527
3. Judgment-Proofing and Charter Competition	529
Problem Set 28	529
ASSIGNMENT 29. “Insider” Restrictions on Investment Transfer	533
A. The Insider Trading Law Enforcement System	533
B. Restrictions on Insiders	535
1. Breach of Fiduciary Duty	535
<i>Silverberg on Behalf of Dendreon Corporation v. Gold</i>	536
2. “Classical” Theory	539
3. Short-Swing Trading	540
4. Other Insider Trading Theories	542
C. Restrictions on Others	543
1. Tippers	543
<i>Salman v. United States</i>	544
2. Tippees	545
3. Misappropriators	546
4. Tender Offer Traders	547
D. Restrictions on Entities	547
1. Classical Theory Against Entities	547

2. Regulation FD	548
3. Control Person Liability	548
E. Compliance Programs	548
Netflix, Inc. Insider Trading Policy	549
Problem Set 29	551
ASSIGNMENT 30. Control Transfers	555
A. The Benefits and Detriments of Control	556
<i>Hollinger International, Inc. v. Hollinger, Inc.</i>	557
B. The Methods of Control Transfer	559
C. Voluntary Control Transfers	560
1. Replacing and Retaining Managers	560
2. Legal Restrictions on Sellers	561
<i>Ford v. VMware, Inc.</i>	562
<i>Thorpe v. CERBCO, Inc.</i>	564
D. Involuntary Control Transfers	566
1. By Managers	566
<i>CBS Corporation v. National Amusements, Inc.</i>	567
2. By Creditors	570
Problem Set 30	571
Chapter 9: Entities as Members of Society	575
ASSIGNMENT 31. Entity Purpose and Responsibility	575
A. Corporate Purpose	576
1. Shareholder Wealth Maximization	576
<i>eBay Domestic Holdings, Inc. v. Newmark</i>	576
Leo E. Strine, Jr., The Social Responsibility of Boards of Directors and Stockholders in Change of Control Transactions	581
2. Other Constituency Statutes	584
Duty of Directors	584
3. The Corporate Purpose Debate	585
B. The Purposes of Other Entity Types	587
1. Partnerships, LLCs, and Limited Partnerships	587
2. Nonstock Corporations	587
3. Nonprofit Corporations	587
4. Benefit Corporations	587
C. Corporate Social Responsibility	588
1. CSR Reports	588
2. ESG Information	589
3. Socially Responsible Investing	589
4. ESG Investing	591
5. The ESG Information System	592

D. The Effects of Voting Concentration	593
Problem Set 31	594
ASSIGNMENT 32. Entity Anonymity	597
<i>City of Almaty v. Ablyazov</i>	597
A. Anonymous Entities	599
Global Witness: Anonymous Companies	600
B. The Mechanics of Anonymous Entities	603
1. Creation of an Anonymous Entity	603
2. Separation of Beneficial Owner from Assets	605
3. Separation of Fund Sources from Fund Destinations	605
4. Entity Bank Accounts	606
C. Beneficial Owner Standards	606
1. The FATF Beneficial Owner Standard	606
2. Adoption of the FATF Beneficial Owner Standard	607
D. The Corporate Transparency Bill	608
1. Overview	609
2. Excerpts	609
Corporate Transparency Act of 2019	609
Problem Set 32	616
ASSIGNMENT 33. Entity Criminal Prosecution	619
A. The Criminal Prosecution Controversy	619
B. Entity Criminal Liability	621
1. Scope of Entity Responsibility	622
<i>AB&M Enterprises, Inc. v. State of Alaska</i>	623
2. Knowledge and Intent	624
<i>United States v. Pacific Gas and Electric Company</i>	626
C. Consequences of Entity Conviction	627
1. Statutes	627
2. Sentencing Guidelines	629
3. Other Sanctions	631
D. Agent Criminal Liability	631
<i>United States v. DeCoster</i>	632
E. Prosecutorial Discretion	634
1. Prosecution Types and Frequencies	634
2. Department of Justice Guidance	635
Problem Set 33	636
Appendix	638
§8C2.5. Culpability Score	638
ASSIGNMENT 34. Entity Civil Rights	641
A. Political Expenditures	642
1. Types of Political Spending	642
<i>Citizens United v. Federal Election Commission</i>	643

2. Indirect Political Spending	648
3. Disclosure Rules	649
B. Religious Exercise	650
<i>Burwell v. Hobby Lobby Stores, Inc.</i>	651
Problem Set 34	657
<i>Appendix</i>	661
<i>Facebook, Inc. Restated Certificate of Incorporation</i>	661
<i>Facebook Amended and Restated Bylaws</i>	675
<i>BKG Catalina LLC Certificate of Organization</i>	700
<i>BKG Catalina LLC Operating Agreement</i>	701
<i>Glossary</i>	711
<i>Table of Cases</i>	735
<i>Index</i>	741