

Preface	xxv
Acknowledgments	xxxii
PART I THE PRACTICE OF BUSINESS LAW	1
Chapter 1 Practicing Corporate Law	3
A. What Do Corporate Lawyers Do?	4
1. A Different Paradigm from Litigators	4
2. The Typical Roles of the Corporate Lawyer	5
B. Where Do Corporate Lawyers Work?	11
1. Private Practice	11
2. Corporations (In-House Lawyers)	12
3. Other Practice Settings	13
4. Who Practices Corporate Law?	14
C. What Do Corporate Lawyers Need to Know?	15
1. Core Areas of Knowledge	16
2. Secondary Areas of Knowledge	17
D. Federal Securities Regulation	18
E. Terms of Art in This Chapter	18
Chapter 2 Business and Businesses	19
A. What Is a “Business”?	19
1. Why Businesses Vary in Size	19
2. Background and Context—Two Examples	21
Fitting In: In Bow to Retailers’ New Clout, Levi Strauss Makes Alterations	21
Suzanne Kapner and Joshua Jamerson, Coach Goes Younger in Nabbing Kate Spade	26
B. The Development of Big Business in America	28
Alfred D. Chandler, Jr., The Visible Hand: The Managerial Revolution in American Business	28
Management Patterns in Large Corporations	31
	xi

Alfred D. Chandler, Jr., <i>The Visible Hand: The Managerial Revolution in American Business</i>	32
C. Form Follows Function—Entities for Businesses	35
1. The Current Setting—From Partnerships to Corporations	35
Alfred D. Chandler, Jr., <i>The Visible Hand: The Managerial Revolution in American Business</i>	36
Margaret M. Blair, <i>Locking in Capital: What Corporate Law Achieved for Business Organizers in the Nineteenth Century</i>	36
2. Background and Context—A Vignette	38
Margret M. Blair, <i>Locking in Capital: What Corporate Law Achieved for Business Organizers in the Nineteenth Century</i>	38
3. Which State’s Law?—The Rise of Delaware	40
William E. Kirk, III, <i>A Case Study in Legislative Opportunism: How Delaware Used the Federal-State System to Attain Corporate Pre-Eminence</i>	40
D. Terms of Art in This Chapter	43
Chapter 3 Economics	45
A. Risk	45
B. Valuation	50
1. Value as Discounted Cash Flow	51
a. “I’ll Gladly Pay You Tuesday for a Hamburger Today”—The Time Value of Money	52
b. Discounting to Present Value	53
c. An Example	54
2. A Practical Illustration	57
<i>Doft & Co. v. Travelocity.com Inc.</i>	58
3. Background and Context: Options and How to Value Them	62
C. Making Economic Decisions	64
1. Rational Self-Interest: The Classical Paradigm	64
2. The Myth of Rational Self-Interest: How Humans Actually Make Economic Decisions	65
a. Self-Interest	65
Richard H. Thaler, <i>The Winner’s Curse: Paradoxes and Anomalies of Economic Life</i>	65
b. The Limits of Rationality	67
Heuristics	67
Amos Tversky & Daniel Kahneman, <i>Judgment Under Uncertainty: Heuristics and Biases</i>	68
c. The Affective Component of Economic Decision Making	71

Contents	xiii
D. Accounting	73
E. Terms of Art in This Chapter	84
PART II AGENCY	85
Chapter 4 Agency	87
A. Background and Context	87
1. The Economic Concept of “Agency” and the Problem of Agency Costs	87
2. Where Do Agency Questions Arise?	90
B. The Current Setting	92
1. Definition of the Agency Relationship	92
2. Creation of the Agency Relationship	93
<i>Rezac Livestock Comm’n Co., Inc. v. Pinnacle Bank</i>	93
<i>Rezac Livestock Comm’n Co., Inc. v. Pinnacle Bank</i>	97
3. Relation of the Principal to Third Parties	103
a. Actual Authority	103
b. Apparent Authority	103
<i>Udall v. T.D. Escrow Services, Inc.</i>	104
<i>CSX Transp., Inc. v. Recovery Express, Inc.</i>	108
c. Principal’s Liability to Third Parties for Actions Actually or Apparently Authorized	113
d. Estoppel	114
e. Ratification	114
f. Restitution	116
g. Principal’s Liability for Agent’s Torts	116
<i>Jefferson v. Missouri Baptist Medical Center</i>	116
<i>Solberg v. Borden Light Marina, Inc.</i>	122
<i>Valentine v. Hodnett</i>	126
h. Liability of the Third Party to the Principal	133
4. Relation of the Agent to Third Parties	133
a. Agent’s Liability on Contract	133
b. Other Sources of Agent’s Liability to Third Party	134
5. Relation of the Principal to the Agent	135
a. Duties of the Agent	135
b. Duties of the Principal	135
6. Termination of the Agency Relationship	136
C. Terms of Art in This Chapter	136

PART III	CORPORATIONS	137
	A. Creation	139
Chapter 5	The Incorporation Process	139
A.	Promoter Liability	139
	<i>Quest Engineering Solutions, Inc. v. Wilbur</i>	139
B.	Choice of Jurisdiction	143
	1. Why the Corporation’s Jurisdiction Matters—The Internal Affairs Doctrine	143
	a. The Current Setting	143
	b. Background and Context	145
	2. The Special Role of Delaware	146
C.	Incorporation Mechanics	147
	1. Reserving the Name	148
	2. The Incorporation Documents	149
	3. Filing	149
	4. Organizing the New Corporation	150
D.	Defective Incorporation	151
	1. Background and Context	151
	Robert S. Stevens, Handbook on the Law of Private Corporations	152
	2. The Current Setting	155
	a. Corporations by Estoppel	155
	<i>Brown v. W.P. Media, Inc.</i>	155
	<i>Payer v. The SGL Carbon, LLC</i>	158
	b. <i>De Facto Corporations</i>	162
	<i>Duray Development, LLC v. Perrin</i>	162
	<i>In the Matter of the Estate of Hausman</i>	169
	c. The Effect of Modern Corporation Statutes	172
	<i>Christmas Lumber Co., Inc. v. Valiga</i>	173
E.	Lawyer’s Professional Responsibility to Multiple Clients and Entity Clients	180
	American Law Institute, Restatement (Third) of the Law Governing Lawyers	180
	Utah Rules of Professional Conduct	181
F.	Terms of Art in This Chapter	187

	B. The Corporation and Its Finances	189
Chapter 6	Capital Formation	189
A.	Financing: Getting Money into the Business	189
	1. Background and Context	189
	2. The Current Setting	191
	a. Corporate Securities	191
	i. (Common) Stock	191
	ii. Preferred Stock	192
	iii. Other Relative Rights	194
	iv. Debt	195
	v. More Exotic Securities	199
	b. Planning the Corporate Capital Structure	200
	i. The Consequences of Debt—Leverage	201
	ii. The Economic Risks of Excessive Debt	204
	iii. Other Costs of Debt	206
	iv. A Real-World Example of the Dangers of Excessive Debt	207
	v. The Legal Dangers of Excessive Debt	208
	vi. Other Factors That Make Equity Attractive	210
	vii. Choosing a Capital Structure for the Startup Corporation	212
	viii. Background and Context: A Note on Financing by Going Public and by Venture Capital	214
	<i>Greenmont Capital Partners I, LP v. Mary's Gone Crackers, Inc.</i>	219
	c. The Mechanics of Issuing Stock	227
	i. Statutory Authorization	227
	ii. Issuance of Stock	228
	Subscription Agreements	231
	iii. The Meaning of <i>Outstanding</i>	235
	iv. Preemptive Rights: The Economic Component	235
B.	Federal Securities Regulation	237
	1. Definition of a Security	238
	2. Registration	239
	a. Registration Requirements and Exemptions	239
	b. The Process of Registration—“Going Public”	241
C.	Terms of Art in This Chapter	243

Chapter 7	Cashing Out: Distributing Money to Shareholders	245
A.	Making a Profit Part I: Dividends	246
1.	The Current Setting	246
a.	Board Discretion	246
b.	Statutory Restrictions	249
c.	The Mechanics of Paying Dividends	250
d.	Stock Splits	252
	<i>Mason v. Mason</i>	253
2.	Background and Context: The Difference Between “Stock Splits” and “Stock Dividends”	259
B.	Making a Profit Part II: Sale of Stock by Shareholders	260
	<i>Henry v. Phixios Holdings, Inc.</i>	262
	<i>F.B.I. Farms, Inc. v. Moore</i>	272
1.	When the Purchaser Is the Corporation That Issued the Shares	279
a.	Limitations on a Corporation’s Power to Purchase Its Shares	279
b.	Motivations to Repurchase Shares	280
c.	The Metaphysics of Repurchased Shares	281
C.	Federal Securities Regulation	283
1.	Restrictions on Resale	283
a.	Section 16(b)	283
b.	Rule 144	284
2.	Rule 10b-5	284
	<i>Dura Pharmaceuticals, Inc. v. Broudo</i>	285
	<i>Halliburton Co. v. Erica P. John Fund, Inc.</i>	290
a.	Insider Trading	297
	<i>Salman v. United States</i>	302
D.	Terms of Art in This Chapter	308
Chapter 8	Getting Money to Creditors When the Corporation Can’t Pay	309
A.	The Current Setting	310
1.	Individual Shareholder Liability by Piercing the Corporate Veil	310
	<i>Lunneborg v. My Fun Life</i>	314
2.	Enterprise Liability and Direct Participant Liability	325
	<i>Forsythe v. Clark USA, Inc.</i>	327
3.	Commercial and Bankruptcy Doctrines	335
4.	Successor Liability	335
	<i>DeJesus v. Bertsch, Inc.</i>	336
B.	Background and Context: Direct Liability of Corporate Officers	344
	<i>Saltiel v. GSI Consultants, Inc.</i>	345
C.	Terms of Art in This Chapter	349

Contents	xvii
C. Board Power to Govern the Corporation	351
Chapter 9 How Corporations Take Actions	351
A. The Board of Directors	351
1. The Role of the Board of Directors	351
a. The Current Setting	351
Ronald J. Gilson & Jeffrey N. Gordon, Board 3.0: An Introduction	355
b. Background and Context	359
Victor Morawetz, A Treatise on the Law of Private Corporations	359
2. Number, Selection, Election, Term, and Removal of Directors	361
a. Number and Selection of Initial Directors	361
b. Election and Term of Directors	361
c. Removal of Directors	363
d. Background and Context	366
Victor Morawetz, A Treatise on the Law of Private Corporations	366
3. The Mechanics of Board Action	367
a. The Current Setting	367
i. Call	368
ii. Notice	368
iii. Quorum	369
iv. Sufficient Vote	369
<i>Klaassen v. Allegro Development Corp.</i>	371
4. Curing Defective Board Action	377
Victor Morawetz, A Treatise on the Law of Private Corporations	381
B. Officers	381
1. Officers and Agents	381
a. The Current Setting	381
2. Power of Officers	384
a. The Current Setting	384
<i>Dilek v. Watson Ent., Inc.</i>	385
b. Background and Context	391
C. Federal Securities Regulation	392
D. Terms of Art in This Chapter	393
D. Restrictions on the Board's Power	395
Chapter 10 Restrictions on the Board's Power	395
A. Legislation That Restricts Board Power	395

xviii	Contents
B. Ultra Vires and Waste	397
Harwell Wells, The Life (and Death?) of Corporate Waste	398
C. Ultimate Beneficiaries	403
1. The Current Setting	404
William T. Allen, Our Schizophrenic Conception of the Business Corporation	404
Leo E. Strine, Jr., Our Continuing Struggle with the Idea that For-Profit Corporations Seek Profit	408
Jessica Floum, Portland to Stop Corporate Investing Despite Mayor Ted Wheeler’s Opposition	411
2. Background and Context	412
Adolf A. Berle, Jr. & Gardiner C. Means, The Modern Corporation and Private Property	412
Stephen M. Bainbridge, The Board of Directors as Nexus of Contracts	415
C.A. Harwell Wells, The Cycles of Corporate Social Responsibility: An Historical Retrospective for the Twenty-First Century	417
D. Federal Securities Regulation	422
Foreign Corrupt Practices Act	422
E. Terms of Art in This Chapter	423
Chapter 11. The Fiduciary Duties of Directors (and Officers)	425
A. The Duty of Loyalty	426
1. The Corporate Opportunity Doctrine	427
<i>Brewer v. Insight Technology, Inc.</i>	428
<i>Grove v. Brown</i>	431
2. Self-Dealing	438
<i>In the Matter of the Estate of Richard C. Poe, Deceased</i>	439
3. Failure to Monitor and the Duty of Good Faith	446
<i>In Re The Boeing Company Derivative Litigation</i>	446
4. Trying to Generalize	462
5. Compensation of Directors and Senior Officers	465
B. The Duty of Care	465
1. The Current Setting	466
<i>FDIC v. Rippy</i>	466
2. Background and Context	475
a. The Propriety of Analogy to Tort	475

Contents	xix
b. Is There a Duty of Care?	476
C. Federal Securities Regulation	478
D. Terms of Art in This Chapter	479
Chapter 12 Standards of Review of Board Actions	481
A. The Duty of Loyalty	483
<i>United Food and Commercial Workers Union v. Zuckerberg</i>	483
1. Failure to Monitor and the Duty of Good Faith	495
<i>ATR-Kim Eng Financial Corp. v. Araneta</i>	495
B. The Duty of Care	503
C. Gross Negligence and <i>Caremark</i> Prong Two	504
<i>McPadden v. Sidhu</i>	505
D. Defendants Can Prevail Despite the Rebuttal of the Business Judgment Rule Presumption—The Entire Fairness Standard	512
E. Plaintiffs Can Prevail Despite Application of the Business Judgment Rule—No Rational Business Purpose	514
F. Amelioration of Liability for Violations of Fiduciary Duties	516
1. Duty of Loyalty: Statutory Safe Harbor for Conflict of Interest Transactions	517
a. The Current Setting	517
i. Transactions Eligible to Be Affected	517
ii. Prerequisites to Being Affected by the CoI Safe Harbors	518
iii. The Effect of Compliance with the CoI Safe Harbor	519
b. Background and Context	520
i. A Note on Shareholder Ratification	520
2. Duty of Care: Limitations Contained in the Articles of Incorporation	521
<i>In re Cornerstone Therapeutics Inc., S'holder Litig.</i>	522
3. Indemnification by the Corporation	526
a. The Current Setting	526
i. Advancement of Expenses	527
ii. When Must the Corporation Indemnify?	527
iii. Procedural and Substantive Prerequisites to Indemnification	528
4. Insurance	529
G. Terms of Art in This Chapter	530

E. Shareholder Power in Public and Private Corporations	531
Chapter 13 Shareholder Governance Powers: Paradigms and Public Companies	531
A. Shareholders' Power to Take Action	532
1. Actions That the Shareholders May Take as a Group	532
2. How Shareholders Take Action in a Meeting	533
a. The Current Setting	533
i. Call	533
ii. Notice	534
<i>McKesson Corp. v. Derdiger</i>	535
iii. Quorum	543
iv. Sufficient Vote	543
v. The Shift to Simple Majority Vote	546
vi. The Importance of Being Present	547
b. Background and Context—The Annual Meeting of the Public Corporation	548
3. How Shareholders Take Action by Consent in Lieu of a Meeting	550
4. Tabulating the Votes	551
a. Whose Vote Counts?	551
b. Who Counts the Votes?	554
B. Shareholders' Rights to Information	556
1. Periodic and Transaction Reporting	556
2. Inspection Right	557
a. Background and Context	557
b. The Current Setting	558
<i>Louisiana Municipal Police Employees' Retirement System v. The Hershey Company</i>	560
<i>Chitwood v. Vertex Pharmaceuticals, Inc.</i>	564
C. Shareholders' Power to Redress Harm to the Corporation	571
1. The Current Setting	571
D. Federal Securities Regulation	575
1. Matters Requiring Shareholder Vote Under Federal Law	575
2. Regulation of Proxy Solicitations	576
3. Reporting Requirements	577
4. Ownership Reporting Requirements	577
E. Terms of Art in This Chapter	578

Contents	xxi
Chapter 14 Shareholder Governance Questions Most Often Seen in the Privately Held Corporation	579
A. Self-Imposed Restrictions on Shareholder Governance Rights	579
1. Preemptive Rights: The Management Component	580
2. Supermajority Provisions	581
a. Superquorum Provisions	582
3. Cumulative Voting	582
4. Agreements Regarding Shareholder Voting	588
a. The Current Setting	588
i. Voting Trusts	588
ii. Pooling Agreements	590
b. Background and Context	591
i. Vote Buying	591
5. Other Shareholder Agreements Affecting Shareholder Governance Power	595
6. The Problem of Deadlock	596
B. External Restrictions on Shareholder Governance Rights	598
1. Shareholder Fiduciary Duties	599
a. The Current Setting	599
2. Oppression and Unfairness by Shareholders	602
a. From a New Remedy for Deadlock . . .	602
<i>Shawe v. Elting</i>	603
b. . . . to a New Cause of Action . . .	611
Charles W. Murdock, The Evolution of Effective Remedies for Minority Shareholders and Its Impact Upon Valuation of Minority Shares	611
<i>Mason v. Mason</i>	615
c. . . . to More Remedies	624
Charles W. Murdock, The Evolution of Effective Remedies for Minority Shareholders and Its Impact Upon Valuation of Minority Shares	624
C. Terms of Art in This Chapter	627
F. Change of Control	629
Chapter 15 Change of Control	629
A. Background and Context	629
B. The Current Setting	631
1. Motivations for Changing Control	631

2. Techniques for Combining Entities	632
a. Purchase of Assets	632
<i>Hollinger Inc. v. Hollinger International, Inc.</i>	633
b. Purchase of Stock	643
c. Merger	643
d. Reverse Triangular Mergers	645
3. Choosing the Appropriate Acquisition Technique	646
4. The Acquisition Process	647
5. Corporate Law Issues	650
a. Deal Protective Measures	650
b. Sale of Control	652
Thomas Arnold, Shareholder Duties Under State Law	652
c. Appraisal	655
i. Which Transactions Trigger Appraisal Rights?	655
ii. What Is “Fair Value”?	656
<i>Matthew G. Norton Company v. Smyth</i>	656
<i>In re Appraisal of Regal Entertainment Group</i>	661
C. Background and Context—Deal Protective Measures, Hostile Takeovers, and Defensive Measures	669
1. Corporate Structures That Deter Hostile Changes of Control	670
2. Standard of Review of a Target Board’s Actions	671
3. The Target Board’s Obligation to Maximize Shareholder Value	672
<i>Lyondell Chemical Co. v. Ryan</i>	673
4. Expanded Deference to Boards	680
<i>Kahn v. M&F Worldwide Corp.</i>	680
<i>Corwin v. KKR Financial Holdings LLC</i>	683
5. State Antitakeover Statutes	686
D. Federal Securities Regulation	687
1. “Groups” under Section 13(d)	687
2. Going Private Transactions	688
3. Tender Offers	688
E. Terms of Art in This Chapter	690
PART IV UNINCORPORATED ENTITIES	691
Chapter 16 Partnerships	693
A. General Partnerships	693
1. Background and Context	693
a. Formation	696

Contents	xxiii
<i>Ziegler v. Dahl</i>	696
b. Financing and Partners' Ownership Interests	703
i. Partner Contributions	703
ii. Partnership Property	704
iii. Partners' Interest in the Partnership	705
iv. Allocations and Distributions to Partners	706
<i>Overland v. Scheper Kim & Harris LLP</i>	706
c. Personal Liability	711
d. Management	713
<i>Barrett v. Jones, Funderburg, Sessums, Peterson & Lee, LLC</i>	713
e. Fiduciary Duties	724
<i>Meinhard v. Salmon</i>	724
<i>Clancy v. King</i>	733
f. Dissociation	744
g. Dissolution	746
B. Other Partnership Forms	747
1. Joint Ventures	747
2. Limited Partnerships	748
a. Background and Context	748
b. The Current Setting	750
3. Limited Liability Partnerships and Limited Liability Limited Partnerships	751
C. Federal Securities Regulation	752
D. Terms of Art in This Chapter	752
 Chapter 17 Limited Liability Companies	 753
A. Background and Context	753
Susan Pace Hamill, The Origins Behind the Limited Liability Company	753
B. The Current Setting	756
1. Introduction	756
2. Formation	760
a. Statutory Requirements	760
b. Promoter Liability and Defective Formation	760
c. Operating Agreements	761
3. Financing	761
a. Capital Contributions	761
b. Allocations and Distributions to Members	762

4. Members' Interest	764
a. Financial	764
b. Disregarding the Entity	764
<i>Puleo v. Topel</i>	764
c. Managerial	769
d. Additional Members, Transferability, and Dissociation	770
5. Management	771
a. Statutory Default Rules	771
b. Manager-Managed Structures	771
6. Fiduciary Duties	772
7. Dissolution	777
C. Federal Securities Regulation	779
D. Terms of Art in This Chapter	780
PART V CHOICE OF FORM	781
Chapter 18 Choice of Entity	783
A. Variable Characteristics Important in Choosing an Entity	784
1. Organizational Differences	784
2. Operational Differences	785
a. Financial	785
b. Managerial	785
3. Differences Regarding Transferred Ownership Interest	786
B. How to Choose the Appropriate Entity	788
C. Fixing the Problem	790
Harry J. Haynsworth, The Unified Business Organizations Code: The Next Generation	790
Richard A. Booth, Form and Function in Business Organizations	794
D. Terms of Art in This Chapter	802
Glossary	803
Table of Cases	823
Index	831