

Shareholder Oppression Claims and Other Shareholder Litigation

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In the traditional corporate relationship, the corporation or company operates under the principle of majority rule. The holders of a majority of the shares with voting power or a majority of the membership interests control the corporation or company. Under this pattern of corporate control, the danger is always present that the majority will use their power to further their own interests to the detriment of minority shareholders or members.

Dissension and “squeeze outs” are a common occurrence. Majority interests sometimes deprive a minority shareholder or member of any effective voice in the operation of the business, exclude him or her from the company’s operations, withhold information involving the affairs of the company, and engage in other tactics designed to “squeeze out” the minority shareholder or member.

On the flip side, frivolous lawsuits by disgruntled shareholders can damage a company’s reputation and community standing and can be costly to defend. Even if there is no legal basis for the claim, it can nonetheless cause enough of a diversion of employee attention and resources and disrupt the company’s business to give the complainant an advantage. “Strike suits” by shareholders, which are frivolous claims filed for nuisance value or a quick settlement, are becoming more frequent. However, laws are in place to protect businesses from frivolous and bad faith litigation.

Shareholder oppression can take many forms, including withholding information and refusals to allow inspection of corporate records, failure to pay or withholding of dividends, siphoning of earnings through the payment of excessive salaries or favorable loans to majority shareholders rather than as dividends, appropriation of corporate assets for personal use, usurping corporate opportunities, dilution of ownership through stock inflation or undue expansion, or forced sales at less than fair value. Unfair business practices like these enable controlling shareholders to deprive minority owners of their decision-making power, as well as their fair share of profits. A minority shareholder or member may find that his or her investment in the enterprise has become practically worthless.

As a shareholder, you are entitled to certain information, rights, and considerations by virtue of your ownership stake in the business. Your stock in the company entitles you to receive financial information regarding the company and to a proportionate share of the company’s profits and overall success. Shareholder information rights are vital. Without knowledge about the company’s financial condition, shareholders are unable to monitor or evaluate the performance of management, to determine whether to reelect incumbent directors, or to make informed decisions about proposed offers to buy or sell their shares.

Remedies are oftentimes available against many squeeze plays if legal assistance is obtained with sufficient promptness. When your rights are diminished by controlling shareholders or other parties, you need resourceful and creative legal representation to help you retain the benefit of your investment. Litigation between shareholders is often hotly contested, and we work to provide you with the protection you need during these intense proceedings.

Whether you are a minority shareholder seeking to protect your interests or a corporation defending against a bogus or unfounded claim, our business lawyers have extensive experience representing disenfranchised or oppressed shareholders in the following areas:

- Shareholder Information and Inspection Rights
- Minority Shareholder Oppression
- Controlling Shareholder Usurpation
- Cease and Desist Letters
- Forced Sale of Stock
- Dissenters Rights
- Shareholder Derivative Actions
- Subscription Agreements
- Shareholder Rights Disputes
- Buy-Sell Agreement Negotiation
- Failure to Pay Dividends
- Enforcement of Shareholder Agreements
- Fraud and Misrepresentation Claims
- Fiduciary Duty Claims
- Ownership Dilution
- Recovery of Legal Fees and Costs for Frivolous Litigation

When you own stock in a business, you are entitled to the right to influence its direction while receiving a share of its successes. When majority shareholders attempt to deny you these rights, they could be violating the shareholder agreement as well as the law. Likewise, honest companies deserve protection from baseless claims filed for the sole intention of extracting settlements from them to avoid negative publicity or litigation expenses. Our business attorneys work to deliver results for our clients and protect their interests in the businesses they own.