

**SHAREHOLDER &
DERIVATIVE
LITIGATION ALERT**

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Our Services

Litigation & Alternative
Dispute Resolution

Shareholder & Derivative
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The Power of a Minority Shareholder

As a minority shareholder in a corporation who lacks decision-making power, what action can you take to protect your rights and interests when those in control are engaged in fraud, mismanagement or other wrongful behavior?

Under certain circumstances, you can seek to involuntarily dissolve the corporation and even possibly induce the majority shareholders to buy you out for more than you could get by selling your minority interest, assuming you could sell it at all. California law allows any shareholder who owns at least 33% of the company's shares – exclusive of any shares held by those who have participated in the wrongful conduct – to file a lawsuit for involuntary dissolution. For example, even if you hold just 10% of a corporation's shares, if the remaining shareholders are engaged in oppressive behavior, you can take action.

A lawsuit predicated on minority shareholder oppression may be appropriate if management or the majority have engaged in wrongful conduct, such as:

- Terminating the minority shareholder's employment;
- removing the minority shareholder from the board of directors;
- refusing to declare dividends when the company is profitable;
- siphoning off earnings to the majority through excessive compensation;
- entering into favorable contracts with affiliates of the majority shareholders;
- using corporate assets for the personal benefit of the majority; or
- making loans to family members.

Involuntary dissolution is a drastic remedy, but given the unmarketability and lack of control of a minority shareholder's interest, filing a lawsuit can possibly open the door to what may be a desirable solution – it could possibly prompt the corporation or the majority shareholders to elect to buy out your shares. If the corporation or the majority decides to do so, California courts will appraise the minority shares so as to not discount their value due to lack of marketability and control. In that sense, you, as a minority shareholder, may receive greater than fair market value for your interest.

If you are a minority shareholder and believe that your rights and interests are being oppressed, you would be well-advised to consult with **Robert M. Heller**, head of the firm's **Shareholder and Derivative Litigation Practice Group**. Mr. Heller represents corporate shareholders (both majority and minority), limited liability company members, as well as corporations and limited liability companies. A complete list of alerts can be found in our **Media Center**.

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