BUSINESS ASSOCIATIONS

17. DUTY OF LOYALTY

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Zahn v. Transamerica

Charter provisions:

- Voting rights
  - Class A = limited; Class B = control
- Liquidation rights
  - Class A = Class B × 2
- Redemption rights
  - company can redeem Class A at $60 per share
- Conversion rights
  - shareholders can convert Class A into Class B

Zahn v. Transamerica

- If $60 in assets
  - Liquidation
    - Class A gets $40 (2/3 of total)
    - Class B gets $20 (1/3 of total)
  - Redemption
    - Class A gets $60 ($60)
    - Class B gets $0 (everything else)
- If $240 In assets
  - Liquidation
    - Class A gets $160 (2/3 of total)
    - Class B gets $80 (1/3 of total)
  - Redemption
    - Class A gets $60 ($60)
    - Class B gets $180 (everything else)

Summary of Interested Transactions Law

- director interest
  - default
    - entire fairness test; burden on defendant
  - independent director approval — unclear
    - entire fairness test; burden on plaintiff
    - business judgment rule; burden on plaintiff
  - independent shareholder approval
    - business judgment rule; burden on plaintiff
- controlling shareholder interest
  - default
    - entire fairness test; burden on defendant
  - independent director approval
    - entire fairness test; burden on plaintiff
  - independent shareholder approval
    - entire fairness test; burden on plaintiff