

State offers protections for minority shareholders

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Q. I am a minority shareholder in a small corporation. The majority shareholders have been attempting to minimize my participation and erode my interest in the corporation. Does the law provide me with any remedy?

New Jersey offers heightened protection for minority shareholders in corporations with 25 or fewer shareholders because such interests, unlike shares in large corporations, are not easily transferrable. Without such protection, a minority shareholder otherwise may be left without recourse when the majority shareholders engage in conduct that frustrates legitimate ownership interests with regard to governance, profit sharing and corporate character.

A minority shareholder need not allege fraud or illegality to maintain an action for "oppression"; rather, a shareholder merely must demonstrate that her "reasonable expectations" relating to shared ownership are being frustrated.

Majority shareholders often engage in a variety of tactics to "squeeze out" or otherwise oppress minority owners, such as issuing stock meant to dilute the value of existing shares, unreasonably withholding the distribution of profits, and firing minority owners from salaried positions.

To combat such practices, New Jersey law permits minority shareholders to file a legal action to obtain relief if directors or those in control of a corporation abuse their discretion or act

"unfairly." In addition, a shareholder has the right to inspect the books and records of a corporation if the request is made in good faith and relates to the shareholder's status as a corporate shareholder.

These broad protections are intended to provide a blanket of protection to those who are not otherwise in a position to challenge those in control of their valuable investment.

Given each unique situation, it is best to consult an attorney to discuss whether you may be entitled to legal recourse as a minority shareholder.

Glen Austin Sproviero is an associate in the litigation department of Cole Schotz Meisel Forman & Leonard PA, the largest law firm in Bergen County. He can be reached at 201-525-6348. This information is not intended as legal advice, which can be given only after the attorney understands the facts of a particular matter and the goals of a client.

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