



EXAMPLES OF MANAGEMENT LIABILITY CLAIMS WHICH DO OCCUR IN PRIVATE COMPANIES

BANKRUPTCY

Shareholders sued the directors of a bankrupt corporation. The allegation was that the directors mismanaged the business causing it to fail.

The action was discontinued.

Defense Costs:.....\$ 170,000

Retail company over expanded during a time of economic difficulty. Revenues shrank, but inventory and supply grew. The company was unable to meet its financial obligations and filed for bankruptcy. Company faced statutory liabilities and the directors were left exposed to pay for amounts owing (including unpaid wages and vacation pay of former employees).

Counsel was retained for defense.

Employees claim was settled.

Defense Costs:.....\$ 165,000

Indemnity:\$ 600,000

MISREPRESENTATION

A corporation secured a shipment from a supplier on credit to complete contracts. Even though the corporation's debts to the supplier were reduced significantly, the corporation failed. The supplier sued the directors of the corporation alleging that there had been a misrepresentation of the company's financial position.

Claim went to arbitration, where the arbitrator found the directors liable for negligence.

Defense Costs: \$ 260,000

Indemnity: \$ 950,000

EMPLOYMENT PRACTICES LIABILITY / WRONGFUL DISMISSAL LAWSUITS

Senior person terminated by an organization after receiving complaints from organization's other employees including sexual misconduct & harassment of other employees. Senior person sued organization and was successful, but the decision was appealed.

The appeal was successful

Defense Costs: \$ 254,000

DISCRIMINATION

Claimant entered Defendant's store, which he had shopped at regularly for past 18 months and was known to owner of store and employees. The Claimant was allegedly discriminated, insulted & assaulted as a result of their ethnic origin and beliefs.

Judgment: The company, its owner and employee found to be jointly liable for injuries to the Claimant. **\$15,000 plus costs**

Other types of claims:

- Buyout of minority shareholders by main shareholder
- "Freeze-out" mergers
- Transfer of Ownership following death
- Employee Pirating