
Corporate law provides that a director or officer owes a “fiduciary duty” to the company. That is, each director and officer are under a legal obligation to act in the best interests of the firm and not to act in their own self-interest (that’s what it means to be a fiduciary). Thus, they shouldn’t benefit at the firm’s expense. As a result, directors and officers have a duty not to misappropriate the firm’s property, information, or business opportunities.

This general rule gets tricky when directors and officers do business with the firm – buying something from the firm or selling something to the firm. Allowing a director to buy something from the firm might be a good idea because the director could pay a high price for the thing being sold. That helps the firm and shareholders -everybody wins. On the other hand, if the director doesn’t pay the going price, other shareholders will be harmed. In this case, courts may find that this violates the director’s fiduciary duty, that the deal was unfair to the firm, and the director would be held liable.

Given that, what do you think of this case?

Verne Hayes was CEO, director and 23 percent shareholder of Coast Oyster Company, a public company that owned large oyster beds. Coast was badly in need of cash to satisfy creditors. Verne did two things to help. First, he arranged for new bank financing. As part of that loan, he promised the Bank could seize his shares in Coast if Coast firm did not repay the loan. In essence, he was offering to pay off the firm’s debt with his own money.

Second, Verne proposed that Coast sell some of its oyster beds to raise funds. Verne asked Engman, a Coast employee, if he might be interested in buying the beds. Engman was willing to buy the beds and on August 11, Coast’s board approved Verne’s plan to sell the oyster beds to Keypoint Oyster Co., a corporation to be formed by Engman, for \$250,000, thus improving Coast’s cash position and relieving it of the expenses of harvesting the oysters in those beds.

After the board approved the sale and the terms, Engman asked whether Verne could help him find a way to finance the purchase. Engman asked whether Hayes Oyster could help -- Hayes Oyster Co. was a family corporation owned by Verne (who owned 25%) and his brother Sam (who owned 75%). On September 1, Verne and Engman agreed that Keypoint’s shares would be owned half by Engman and half by Hayes Oyster. *See the chart below for the ownership structure.*

On October 21, Coast shareholders approved the sale. Verne voted his own shares in favor of the transaction. Verne never disclosed his involvement with Keypoint Oyster to either Coast's board or shareholders.

A few years later, Verne sold his Coast shares and the proceeds at October 21, 2017 to [vios C

