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## **What are the attributes of a closely held corporation?**

- a. Closely held corporations have the following attributes:
  - i. No public market for the sale or purchase of stock,
  - ii. Limited number of shareholders,
  - iii. The shares are not freely transferable (restrictions in place),
  - iv. Shareholders have typically invested and typically expect that they can participate directly in managing the business,
  - v. Shareholders are looking to corporation as a primary source of income in the same way that employees are paid compensation.
  
- b. Fiduciary duty
  - i. A closely held corporation is much like a partnership.
  - ii. Those with the majority shares owe the utmost loyalty and good faith to minority shareholders.
  - iii. In exercising their voting rights, majority shareholders have an obligation to establish a legitimate business purpose
    1. If there is a legitimate purpose, ask whether there is an alternative business action that would effectively meet the legitimate purpose and be less harmful to the minority.
    2. Can still fire at-will employees with a business purpose
  - iv. Using voting control devices in order to avoid reliance on the fiduciary duty (long court battle).