



H.S. Grace & Company, Inc.

## Minority Shareholder Rights

### Allegations

H.S. Grace & Company (HSG) was engaged on behalf of minority shareholders of a small capitalized company to determine whether the value of their investment was intentionally devalued over the course of a seven year period by the senior management of the acquiring company.

### Analysis

During the course of the investigation, HSG found evidence of corporate governance problems that effectively allowed the acquiring company to embark on a series of decisions that increased their company's value sixteen fold while reducing the market value of the acquired company by seventy five percent.

The President and CFO of the acquired company were relegated to handling financial and administrative aspects while reporting directly to the company board controlled by the Defendants' senior management instead of a CEO. In this structure, the board, controlled by the defendants, assumed the role of a CEO and proceeded to make decisions that violated the fundamentals of corporate governance structures where majority and minority stockholder groups exist.

At the time of the acquisition, the two companies were relative equals but the acquired company had a very strong market presence in two regions of the US that the acquiring company valued as very strategic. The defendants then chose to direct the business and associated synergies and growth in the acquired company's marketplace to its own advantage and deny the benefits of the market growth and synergies to the minority shareholders of the acquired company.

If the defendants had shared joint opportunities appropriately, the value of the acquired company would have increased significantly. While the majority of the value would belong to the defendants as they were the majority shareholders, the minority shareholders would have reaped a fair percentage value. This was not the case. The defendants instead diverted value to the parent company, thus depriving the minority shareholders of the acquired company of their fair share. The defendants also acted to reduce the minority shareholders percentage ownership in the acquired company as well as to misrepresent its intentions through a plan of action submitted to the banks that financed the acquisition. Furthermore, the Defendants made a series of financial and operational decisions that effectively forced the acquired company to liquidate valuable assets to pay above market interest rates on notes held by the parent company.

HSG found governance problems in the financial, operational, and management practices of the Defendants. The Defendants intentionally pursued a course of action that would diminish the value of the acquired company and the associated minority shareholder interests to greatly enhance the value of their own company.

## **Result**

After the expert report and deposition of H. Stephen Grace, Jr., the Defendants' attorney suggested that settlement discussions should be initiated. After brief negotiations a settlement was reached that was favorable for the Plaintiffs.

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*H.S. Grace & Company, Inc. is a team of senior executives who diagnose and resolve critical corporate problems in business governance, operations, finance and control. With more than 1,000 years of experience, our goal is to help companies enhance shareholder value, protect reputation and their long-term ability to succeed, avoid and manage litigation, and navigate major changes such as mergers and acquisitions or bankruptcies. We often serve as consulting and testifying experts, identifying and analyzing critical business issues.*

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