

Overview of Poison Pill Your Corporate Shares

What do you do as a stockholder of a smaller corporation? How can you quickly sell your shares without it being a fraudulent transfer if you have creditors? The answer is that you probably can't. Still, you can make your shares nearly worthless to creditors:

·**Impose transfer restrictions.** Corporate restrictions on the transfer of shares generally won't prevent creditor seizure; however, restrictions might discourage the less-aggressive creditor. Restrictions on transfer must be reasonable to be enforceable, but not every creditor will incur the cost or effort to challenge unreasonable restrictions.

·**Assess your shares.** If you have not fully paid for your shares or if the shares are assessable by the corporation, then a creditor who seizes the shares takes them subject to the obligation to pay the assessment. A potential assessment obviously reduces the value of the shares to the creditor by the amount of the potential assessment. An assessment is particularly effective as a poison pill and assessments are frequently included in corporate documents as an anti-creditor tactic.

·**Issue irrevocable proxies.** A proxy assigns your right to vote your shares. For example, if you issue a proxy to a relative, a creditor who seizes your shares cannot vote your shares because you transferred your voting powers to the proxy holder. This significantly lessens the stock's value to the creditor, because the creditor gains no voting rights. If you are sued, you may also exchange your voting shares for non-voting shares which will have less value to creditors.

·**Dilute your stock ownership.** Don't let a creditor seize a controlling interest in your business? If you own a controlling interest, dilute your ownership. Have your corporation sell additional shares to other family members or to family controlled entities (trusts, limited partnerships, etc.). A creditor who seizes a small ownership interest in the corporation would not control the corporation. As a minority stockholder, the creditor's only right would be to vote his or her shares and await future dividends, if any. It is often wise to spread the stock ownership in a family owned corporation between family members so that no one family member owns more than 49% of the voting shares.

·**Pledge your shares.** A final option is to pledge your shares as collateral to a friendly creditor. If the amount you borrow approximates the value of your shares, your creditor can chase only shares with no equity. This website will show you ways to legally encumber your shares.