

TABLE OF CONTENTS

CHAPTER 1: Introduction to Deepening Insolvency	1
1. Generally	1
2. Definition of Deepening Insolvency	3
3. Evolution of Deepening Insolvency Theory.....	4
CHAPTER 2: Officer and Director Business Decisions and Fiduciary Duties	7
1. Breach of Fiduciary Duty Generally.....	7
2. Nature of Fiduciary Duties Outside of Bankruptcy	8
<i>A. Historically</i>	8
<i>B. Definition of Fiduciary Duties</i>	8
<i>C. Types of Fiduciary Duties</i>	10
3. Fiduciary Duties in Bankruptcy.....	14
4. Fiduciary Duties of Insolvent Corporations	15
<i>A. Generally</i>	15
<i>B. Emerging Duties to Creditors</i>	17
<i>C. Insolvency</i>	18
<i>D. Zone of Insolvency</i>	20
CHAPTER 3: Interplay between Breach of Fiduciary Duties and Deepening Insolvency Liability	23
1. Deepening Insolvency Liability Resulting from a Breach of Fiduciary Duties	23
2. Deepening Insolvency Theory Overrides the Business Judgment Rule.....	24

3. Previously Insolvent Corporations Cannot Be Injured Despite Breach of Fiduciary Duties	27
4. Deepening Insolvency Discourages Workouts	28
5. Deepening Insolvency Is Hindsight	28
6. Deepening Insolvency Is Duplicative of Other Torts	29

**CHAPTER 4: The Tort Claim
for Deepening Insolvency** 33

1. Elements of a Deepening Insolvency Claim	33
<i>A. Split of Authority on Culpability Element</i>	34
<i>B. Harm to the Entity</i>	36
<i>C. Causation of Damages</i>	37
2. Use of Deepening Insolvency Claims to Obtain Standing	41
3. Use of Deepening Insolvency Claim to Pursue Sizeable Damages	44

**CHAPTER 5: Deepening Insolvency
as a Theory of Damages** 45

1. Generally	45
2. Substantive Claims in Which Deepening Insolvency Damages May Apply	46
3. <i>Lafferty</i> Methodology to Measure Damages under Deepening Insolvency Theory	47
4. Definition of Insolvency as Baseline Measurement	49
5. Loss in Value Approach	50
6. Increased Liabilities	54
7. Balance Sheet Test: Liabilities May Be Balance Sheet-Neutral	57
8. Looting of Assets from a Corporation	60

9. Actual Harm: Legal and Administrative Costs	61
10. Liquidation vs. Reorganization.....	62
11. Possible Measurement of Damages for Individual Creditors.....	65
12. Causation of Damages.....	66
<i>A. Establishing Proximate Causation: Damage Was Reasonably Foreseeable</i>	66
<i>B. Wrongful Act a Substantial Factor</i>	68
<i>C. Intervening Acts</i>	70

CHAPTER 6: Summary of Positions on Deepening Insolvency by State

1. Alabama	73
2. Alaska.....	73
3. Arizona.....	74
4. Arkansas	75
5. California.....	75
6. Colorado	75
7. Connecticut.....	76
8. Delaware	76
9. Florida	83
10. Georgia.....	84
11. Hawaii	85
12. Idaho.....	86
13. Illinois	86
14. Indiana.....	87

15. Iowa..... 87

16. Kansas 88

17. Kentucky 88

18. Louisiana 88

19. Maine..... 88

20. Maryland 89

21. Massachusetts 89

22. Michigan..... 90

23. Minnesota 91

24. Mississippi..... 91

25. Missouri..... 91

26. Montana..... 91

27. Nebraska..... 91

28. Nevada..... 92

29. New Hampshire 92

30. New Jersey..... 93

31. New Mexico 96

32. New York..... 96

33. North Carolina 99

34. North Dakota 101

35. Ohio..... 101

36. Oklahoma 102

37. Oregon..... 102

38. Pennsylvania..... 103

39. Rhode Island..... 109

40. South Carolina	109
41. South Dakota	110
42. Tennessee.....	110
43. Texas	110
44. Utah.....	112
45. Vermont	113
46. Virginia.....	113
47. Washington	114
48. West Virginia	114
49. Wisconsin	114
50. Wyoming	114
51. Washington, D.C.....	115
52. Puerto Rico	115
53. Other.....	115

**CHAPTER 7: Deepening Insolvency Claims
against Officers and Directors**..... 117

1. Generally	117
2. Claims Stated against Officers, Directors and Their Corporations.....	118
3. Claims Not Stated against Officers and Directors	121

**CHAPTER 8: Deepening Insolvency Claims
against Other Target Defendants**..... 127

1. Generally	127
2. Lenders	127
<i>A. Claims Stated against Lenders</i>	127
<i>B. Claims Not Stated against Lenders</i>	129

- 3. Accountants, Auditors and Financial Advisors..... 131
 - A. *Claims Stated against Accountants and Auditors*..... 131
 - B. *Claims Not Stated against Accountants and Auditors* 135
- 4. Attorneys 137
 - A. *Claims Stated against Attorneys* 137
 - B. *Claims Not Stated against Attorneys* 138

CHAPTER 9: Standing Issues in Pursuing Deepening Insolvency Claims..... 141

- 1. Generally 141
- 2. A Trustee’s Standing to Pursue a Deepening Insolvency Claim..... 142
 - A. *As Representative of Creditors* 142
 - B. *Courts that Recognize that a Trustee Does Have Standing* 146
 - C. *Courts Finding that a Trustee Does Not Have Standing* 150
- 3. A Receiver’s Standing to Pursue a Deepening Insolvency Claim..... 151
- 4. Creditors’ Standing to Pursue a Deepening Insolvency Claim..... 153
 - A. *Cases Addressing Individual Creditor Standing* 153
 - B. *Cases Addressing Creditors’ Committee Standing* 154

CHAPTER 10: The *In Pari Delicto* Defense 157

- 1. Generally 157
- 2. Application of *In Pari Delicto* to Trustees 159
- 3. Application of *In Pari Delicto* to Receivers..... 160
- 4. Ways to Defeat the *In Pari Delicto* Defense 161

A. <i>States' Laws of Imputation</i>	161
B. <i>The Adverse Interest Exception</i>	162
5. Deepening Insolvency Claims Dismissed Because of <i>In Pari Delicto</i>	171
6. <i>In Pari Delicto</i> Not a Bar to Deepening Insolvency Claim	173

CHAPTER 11: Deepening Insolvency Going Forward	175
1. The Potential Value of Deepening Insolvency	176
2. The Drawbacks of Deepening Insolvency	177
3. Cost-Benefit Analysis of Asserting Deepening Insolvency.....	178