

Summary Table of Contents

Abbreviations	IX
Table of Contents	XIII
A. Introduction	1
B. The Corporate Environment	2
I. Common Forms of Doing Business	2
II. Majority Rights and Minority Protection	16
III. Shareholder Liability and Piercing the Corporate Veil	19
IV. Sources of Information	22
C. The Regulatory Framework	25
I. General	25
II. Restrictions on Acquisitions	25
III. Securities Law	28
IV. Disclosure Obligations	31
V. Insider Trading Rules	40
D. Merger Control and Competition Law	42
I. German Merger Control	42
II. Other German Competition Law Aspects	45
III. EU Merger Control	45
E. Types of Transactions	49
I. General	49
II. Acquisition of Assets	49
III. Acquisition of Shares	54
IV. Asset Purchase Transactions compared with Share Purchase Transactions	58
V. Corporate Reorganisations	60
VI. Takeovers and Tender Offers	63
VII. Leveraged Buy-outs and Management Buy-outs	80
F. Financing Methods	88
I. Introduction	88
II. Equity	88
III. Senior Debt	90
IV. Mezzanine Debt	91
V. Capitalisation Rules	92
VI. Financial Assistance	92
VII. Availability of Local Financing	93
G. Taxation Aspects	95
I. Principles of the Tax System and Relevant Taxes	95
II. Acquisition Strategies	103
III. Germany as a Location for Holding Companies	109
H. Labour Law	111
I. Individual Labour Law	111

II. Collective Bargaining Agreements (<i>Tarifverträge</i>).....	112
III. Co-determination (<i>Mitbestimmung</i>)	113
IV. Particular Aspects Relative to Acquisitions.....	115
I. Negotiating the Acquisition Contract	119
I. General Background.....	119
II. Due Diligence.....	120
III. Obligation to Negotiate in Good Faith.....	121
IV. Letter of Intent and Pre-contract	121
V. Important Elements of Contract	122
VI. Formal Requirements	126
J. Corporate Insolvency Law	129
I. Tests for Insolvency.....	129
II. Filing for Insolvency.....	129
III. Insolvency Administration	130
IV. Types of Procedure	130
V. Satisfaction of Creditors	130
Appendices	133
I. Glossary	133
II. Legal Forms of Business Organisations in Germany.....	139
III. German Merger Control Questionnaire.....	140
IV. Timeline for a Voluntary Takeover Bid	142
V. Legal Due Diligence Checklist	143
VI. Related Legal Literature (in English)	147
VII. Useful Weblinks.....	148
VIII. Useful Addresses.....	149
IX. English Translations of Selected German Statutes	150
Index	151

Table of Contents

Abbreviations	IX
Summary Table of Contents	XI
A. Introduction	1
B. The Corporate Environment	2
I. Common Forms of Doing Business	2
1. Overview	2
2. Sole Proprietorship (<i>Einzelkaufmännisches Unternehmen</i>)	3
3. Civil Law Partnership (<i>Gesellschaft Bürgerlichen Rechts</i>)	3
4. General Partnership (<i>Offene Handelsgesellschaft</i>)	4
5. Limited Partnership (<i>Kommanditgesellschaft</i>)	5
6. GmbH & Co. KG.	5
7. Silent Partnership (<i>Stille Gesellschaft</i>)	6
8. Limited Liability Company (<i>Gesellschaft mit beschränkter Haftung</i>) ..	7
9. Entrepreneur Company (<i>Unternehmergesellschaft</i>)	9
10. Stock Corporation (<i>Aktiengesellschaft</i>)	9
a) Establishment	9
b) Management Board	9
c) Supervisory Board	11
d) Shareholders' Meeting	12
e) Shares and Voting Rights	12
f) Squeeze-out of Minority Shareholders	13
g) REIT-AG	14
11. Partnership Limited by Shares (<i>Kommanditgesellschaft auf Aktien</i>) ..	15
12. European Company (<i>Europäische Gesellschaft or Societas Europaea</i>) ..	15
13. Foreign Companies in Germany	16
II. Majority Rights and Minority Protection	17
1. Majority Rights	17
2. Minority Protection	18
III. Shareholder Liability and Piercing the Corporate Veil	20
1. Pre-incorporation Liability	20
2. Capital Contributions and Repayment of Capital	20
3. Contractual, Pre-contractual and Tort Liability	21
4. Breach of a Fiduciary Duty	21
5. Commingling of Assets	21
6. Exercise of Controlling Influence	21
a) Control Agreements	21
b) Factual Control Situations	22
c) Rights of Creditors	23
IV. Sources of Information	23
1. Commercial Register	23
2. Company Register	23
3. Further Sources	24
C. The Regulatory Framework	25
I. General	25

II. Restrictions on Acquisitions	25
1. Restrictions on Acquisitions by Non-residents	25
a) Control of Foreign Investments	25
b) Exchange Control	26
c) Reporting Requirements	26
2. Licensing Requirements	26
3. Restrictions under Company Law	27
4. Restrictions under the Takeover Act	27
5. Merger Control	27
III. Securities Law	28
1. Requirement for Securities Prospectus	28
2. Stock Exchanges	29
a) Listing	30
b) De-listing	30
IV. Disclosure Obligations	31
1. Disclosure Relating to Marketing of Securities or Other Participations	31
2. Periodic Disclosure Relating to Listed Securities	31
3. Ad Hoc Disclosure	33
4. Disclosure Relating to Directors' Dealings	34
5. Disclosure Relating to Major Holdings of Shares	34
a) Non-listed Corporations	34
b) Listed Corporations	35
6. Notification of Share Transfers, Registration	37
7. Disclosure to Commercial Register	37
8. Financial Disclosure	37
9. Disclosure in Tender Offers	39
10. Corporate Governance Disclosure	39
11. Annual Document	40
V. Insider Trading Rules	40
D. Merger Control and Competition Law	42
I. German Merger Control	42
1. General	42
2. Definition of Mergers	42
3. Notification	43
4. Prohibition of Mergers	44
5. Appeals, Private Suits	44
6. Dissolution	45
II. Other German Competition Law Aspects	45
III. EU Merger Control	45
1. General	45
2. Definition of Concentration	46
3. Definition of Community Dimension	46
4. Notification and Review Procedure	47
5. Standard of Review	48
6. EFTA Merger Control	48
E. Types of Transactions	49
I. General	49
II. Acquisition of Assets	49
1. General	49

2. Specification of Assets and Liabilities	49
3. Transfer of Assets and Liabilities	50
4. Statutory Assumption of Liabilities	52
5. <i>Bona Fide</i> Acquisition	53
6. Acquisition of an Insolvent Business	53
7. Tax Aspects	54
III. Acquisition of Shares	54
1. General.	54
2. Scope of Transfer	55
3. Transfer of Shares in Different Types of Company	56
a) Partnership	56
b) GmbH	56
c) Stock Corporation	57
4. Statutory Assumption of Liabilities	57
5. <i>Bona Fide</i> Acquisition	57
6. Tax Aspects	58
IV. Asset Purchase Transactions compared with Share Purchase Transactions	58
V. Corporate Reorganisations	60
1. General.	60
2. Types of Reorganisation	60
a) Merger or Consolidation (<i>Verschmelzung</i>)	60
b) Splitting (<i>Spaltung</i>)	60
c) Transfer of Assets (<i>Vermögensübertragung</i>)	61
d) Change of Legal Form (<i>Formwechsel</i>)	61
3. Reorganisation Procedure	61
4. Tax Aspects	62
5. Cross-border Mergers	62
VI. Takeovers and Tender Offers	64
1. General	64
2. Public Tender Offers under the Takeover Act	65
a) Scope	65
b) Basic Principles	65
c) Rules and Regulations Applying to all Types of Public Bids	65
d) Special Rules and Regulations Applying to Takeover Bids	67
e) Mandatory Offer	68
f) Takeover Squeeze-out and Sell-out	69
g) Supervision and Sanctions	70
3. Barriers to Takeovers	70
a) Identification of Shareholders	71
b) Management Control	71
c) Protection of Corporation	72
d) Protection of Minority Shareholders	73
4. Pre-bid Defensive Tactics	74
a) Restricted Registered Shares (<i>Vinkulierte Namensaktien</i>)	74
b) Change of Majority Requirements	75
c) Appointment Rights and Staggered Supervisory Board	76
d) Cross-shareholdings (<i>Überkreuzverflechtungen</i>)	76
5. Post-bid Defensive Tactics	77
a) Use of Authorised Capital (<i>Genehmigtes Kapital</i>)	78
b) Special Dividend	79

c) Acquisition and Disposal of Own Shares	79
d) Disposal of Assets ('Crown Jewels')	80
e) Search for a Competing Bidder ('White Knight')	81
VII. Leveraged Buy-outs and Management Buy-outs	81
1. Introduction	81
2. Financing Structure	81
a) Equity	82
b) Senior Debt	82
c) Mezzanine Debt	82
d) Shareholder Loans	83
3. Structure of Transaction	83
a) Acquisition Vehicle	83
b) Asset or Share Transaction?	84
c) Capital Maintenance Rules	84
4. Refined Concepts for Share Transactions	85
a) Merger Model	86
b) Combination Model	86
c) Accretion Model	86
5. Management Duties in MBOs	87
F. Financing Methods	88
I. Introduction	88
II. Equity	88
1. GmbH	88
2. Stock Corporation	89
3. Commercial Partnership	90
III. Senior Debt	90
1. Loans	90
2. Straight Bonds	91
IV. Mezzanine Debt	91
V. Capitalisation Rules	92
1. Undercapitalisation	92
2. Debt-Equity Ratio	92
VI. Financial Assistance	92
VII. Availability of Local Financing	93
G. Taxation Aspects	95
I. Principles of the Tax System and Relevant Taxes	95
1. Individual Income Tax (<i>Einkommensteuer</i>)	95
2. Corporate Income Tax (<i>Körperschaftsteuer</i>)	95
3. Income Taxation of Partnerships	96
4. Solidarity Surcharge (<i>Solidaritätszuschlag</i>)	96
5. Trade Tax (<i>Gewerbesteuer</i>)	96
6. Taxation of Dividends	96
a) Withholding Tax on Dividends	96
b) Taxation at the Level of the Shareholder	97
7. Net Assets Tax (<i>Vermögensteuer</i>)	98
8. Value Added Tax (<i>Umsatzsteuer</i>)	98
9. Real Estate Transfer Tax (<i>Grunderwerbsteuer</i>)	99
10. Stamp Duties and Notarial Fees	99
11. Group Taxation (<i>Organschaft</i>)	100

12. Loss Carry-forward (<i>Verlustvortrag</i>) and Loss Carry-back (<i>Verlustrücktrag</i>)	101
13. Use and Transfer of Loss Carry-forwards.	101
14. Deductibility of Interest.	102
II. Acquisition Strategies.	103
1. General.	103
2. Share Purchase Transaction	103
a) Seller's Position	103
b) Purchaser's Position	106
3. Asset Purchase Transaction.	107
a) Seller's Position	107
b) Purchaser's Position	108
4. Conflict of Interest between Seller and Purchaser.	109
III. Germany as a Location for Holding Companies	109
H. Labour Law	111
I. Individual Labour Law	111
II. Collective Bargaining Agreements (<i>Tarifverträge</i>).	112
III. Co-determination (<i>Mitbestimmung</i>)	113
1. Shop-Floor Level Co-determination (<i>Betriebliche Mitbestimmung</i>)	113
2. Board Level Co-determination (<i>Unternehmerische Mitbestimmung</i>)	114
IV. Particular Aspects Relative to Acquisitions.	115
1. Share Transaction	115
2. Asset Transaction	115
a) Transfer of Employment Contracts.	115
b) Co-determination.	117
I. Negotiating the Acquisition Contract	119
I. General Background	119
II. Due Diligence.	120
III. Obligation to Negotiate in Good Faith.	121
IV. Letter of Intent and Pre-contract.	121
V. Important Elements of Contract	122
1. Parties.	122
2. Subject Matter	122
3. Closing and Transfer Date.	123
4. Purchase Price.	124
5. Representations and Warranties	124
6. Legal Remedies.	124
7. Statute of Limitations.	125
8. Undertaking Not to Compete.	125
9. Participation in Legal Proceedings, Tax Audits and Merger Control Proceedings.	125
10. Arbitration or Venue	125
11. Taxes and Costs.	126
12. Governing Law.	126
VI. Formal Requirements	126
1. Form of Contract; Notarisation	126
a) General	126
b) Notarisation Abroad	127
2. Consents and Approvals.	127
3. Registration.	128

J. Corporate Insolvency Law	129
I. Tests for Insolvency.....	129
II. Filing for Insolvency.....	129
III. Insolvency Administration	130
IV. Types of Procedure	130
V. Satisfaction of Creditors.....	130
Appendices	133
I. Glossary	133
II. Legal Forms of Business Organisations in Germany.....	139
III. German Merger Control Questionnaire.....	140
IV. Timeline for a Voluntary Takeover Bid	142
V. Legal Due Diligence Checklist	143
VI. Related Legal Literature (in English)	147
VII. Useful Weblinks.....	148
VIII. Useful Addresses.....	149
IX. English Translations of Selected German Statutes.....	150
Index	151