

# Table of contents

Foreword .....	V
Vorwort .....	VI
Abbreviations .....	XIII
<b>First Part. Introduction to the Act on Limited Liability Companies .....</b>	<b>1</b>
I. Nature and History of the GmbH .....	1
1. Differences between the AG and the GmbH .....	1
a) The AG .....	1
b) The GmbH .....	2
2. Development of the GmbH-Act .....	2
3. Statistical Data on the Growth of the GmbH .....	3
4. The Use of the GmbH in Corporate Transactions .....	4
II. Formation of a GmbH .....	6
1. Introduction to the Mechanics of Formation .....	6
2. Permissions Required for Certain Types of Business Activities ...	6
3. Number of Founders; One-Man GmbH; Shareholder	
Qualification .....	6
4. Articles of Association .....	7
5. Purpose; Name; Domicile and Duration .....	9
a) Purpose of the Company .....	9
b) Name of the Company .....	10
c) Domicile of the Company .....	11
d) Duration of the Company .....	11
6. Appointment of Managing Directors; Determination of their	
Power to Represent the Company .....	12
a) General .....	12
b) Number of Managing Directors .....	12
c) Qualification for the Position of Managing Director .....	12
aa) No Citizenship, Domicile or Residence Requirements. ....	12
bb) Personal Reliability and Professional Qualification. ....	13
cc) Conflicts of Interest .....	13
dd) Qualification Requirements in the Articles .....	13
d) Appointment of Managing Directors .....	14
e) Determination of the Power to Represent the Company .....	14
7. Share Capital .....	14
a) Minimum Share Capital .....	15
b) Subscription to Shares and Share Capital Contributions .....	15
c) Cash and Non-Cash Contributions .....	15
d) "Hidden" Contribution in Kind .....	16
e) Issuance of Shares below Stated Value not Permitted; Surplus	16
f) Payment of Share Capital Contributions; Liability for Short-	
fall and Pre-Incorporation Losses .....	17

aa) Contributions in kind. ....	17
bb) Cash Contributions. ....	17
cc) Liability for Shortfall or Pre-Incorporation Losses. ....	17
8. Registration and Publication. ....	18
a) The Commercial Register. ....	18
b) Application for Registration. ....	19
c) Role of the Court in the Registration Process. ....	21
d) Contents of the Registration. ....	21
e) Publication of Registrations. ....	22
9. Pre-Incorporation Status of the Company. ....	22
a) Pre-Incorporation Company. ....	22
b) Pre-Incorporation Rights and Liabilities. ....	22
c) Accrual of Pre-Incorporation Rights and Liabilities to the GmbH. ....	23
d) Pre-Incorporation Losses. ....	23
10. Defective Incorporation. ....	23
11. Liability of Founders and Other Persons. ....	24
a) False Statements. ....	24
b) Contributions or Formation Expenses which Cause Damage. .	24
c) Joint and Several Liability; Degree of Fault Required. ....	24
d) Assertion of Claims; Statute of Limitations; Waiver and Com- promise. ....	25
e) General Scope of Protection of Creditors and the Public. ....	25
12. The "Entrepreneur Company". ....	26
III. Shares; Shareholder Rights and Obligations. ....	27
1. Shares versus Share Capital Contributions. ....	27
2. Stated Amount of Shares. ....	27
3. No Share Certificate or Share Record Required. ....	27
4. Shareholder Rights and Obligations. ....	28
a) General. ....	28
b) Shareholder Rights. ....	29
aa) Rights Attaching to Shares; Personal Shareholder Rights. .	29
bb) Property Rights; Control and Management Rights. ....	30
cc) Preferential Rights or Shares, Special Privileges. ....	30
c) Shareholder Obligations. ....	32
aa) Obligations Adhering to Shares, Personal Shareholder Obligations. ....	32
bb) Ancillary Obligations. ....	32
5. Transfer and Inheritance of Shares. ....	34
a) Transfer of Shares. ....	34
aa) Contractual Commitment to Transfer or Acquire Shares. .	34
bb) Transfer Agreement. ....	35
cc) Transfer Restrictions and Formalities Imposed by the Articles. ....	35
dd) Transfer Notification to the Commercial Register. ....	36
ee) Good Faith Acquisition of Shares from a Registered Owner. ....	36
b) Inheritance of Shares. ....	37
6. Division of Shares; Combination of Shares. ....	38
7. Joint Holding of Shares. ....	38

8. Acquisition of Its own Shares by the Company .....	39
9. Redemption of Shares .....	39
IV. Capitalization and Funding of the Company by its Shareholders ....	41
1. Share Capital .....	41
a) General .....	41
b) Ensurance of Full Payment of Share Capital Contributions ....	42
aa) General. ....	42
bb) Forfeiture of Shares in Case of Default. ....	43
cc) Liability of Predecessors for Payment. ....	43
dd) Liability of Fellow Shareholders Following Public Auction. ....	44
c) Preservation of the Share Capital .....	45
aa) General. ....	45
bb) Prohibition Against Repayment of Share Capital. ....	45
cc) Liability of Managing Directors for Violation of Capital Protection Rules. ....	47
2. Supplementary Contributions .....	47
a) General .....	47
b) Due Date; Ownership of Claim for Payment .....	48
c) Repayment to Shareholders of Supplementary Contributions .	49
3. Additional Payments into the Equity in the Form of Capital Reserves .....	49
a) General .....	49
b) Procedure .....	49
c) Repayment to Shareholders of Additional Payments into the Equity .....	50
4. Shareholder Loans to the GmbH .....	50
a) General .....	50
b) Treatment of Shareholder Loans to the GmbH in Insolvency Proceedings .....	50
5. Piercing the Corporate Veil? .....	51
V. Corporate Structure; Managing Directors; Management and Representation; Supervisory Board .....	52
1. Corporate Structure .....	52
a) The Traditional Structure. ....	52
b) The Impact of Employee Co-Determination Acts .....	52
2. Managing Directors; Management and Representation .....	53
a) Appointment of Managing Directors .....	53
b) Requirement of a Labour Director .....	54
c) Removal and Resignation of Managing Directors .....	54
aa) Removal. ....	54
bb) Resignation. ....	55
d) Service Agreements with Managing Directors .....	56
e) Representation of the Company .....	56
f) Internal Management Structure .....	57
g) Duties and Responsibilities of Managing Directors .....	58
aa) General. ....	58
bb) General Obligation of Diligent Management. ....	59
cc) Special Obligations Regarding Contribution and Preser- vation of Share Capital. ....	59

dd) Special Obligations Arising from Loss of Share Capital, Overindebtedness and Insolvency .....	60
ee) Special Responsibilities Regarding Payment of Taxes and Social Insurance Contributions .....	61
ff) Compliance with Instructions of Shareholders. ....	62
3. Supervisory Board .....	62
a) Optional or Mandatory Supervisory Board .....	62
b) Optional Supervisory Board .....	62
aa) Creation of a Supervisory Board.....	62
bb) Number of Members; Qualification; Conflicts of Interest ..	63
cc) Appointment. ....	64
dd) Term of Office; Removal and Resignation.....	64
ee) Compensation. ....	64
ff) Internal Organization.....	65
gg) Rights and Responsibilities of the Supervisory Board. ....	65
hh) Power to Represent the Company vis-à-vis Managing Directors.....	66
ii) Duty of Diligence, Liability. ....	67
c) Mandatory Supervisory Boards in Co-Determined Companies	67
VI. Business Year; Accounting and Auditing; Disclosure; Appropriation of Profits .....	69
1. Business Year .....	69
2. Accounting and Auditing; Disclosure .....	69
a) Proper Bookkeeping .....	69
b) Preparation of Financial Statements.....	70
c) Auditing .....	71
d) Review by the Supervisory Board .....	72
e) Submission of the Financial Statements to, and Adoption of the Annual Accounts by, the Shareholders .....	73
f) Disclosure.....	73
3. Appropriation of Profits .....	74
VII. Majority Governance; Shareholder Resolutions; Minority Protection .	75
1. Majority Governance .....	75
2. Shareholder Resolutions .....	75
a) Matters Subject to Shareholder Resolution .....	76
aa) Adoption of Annual Accounts and Distribution of Profit. .	76
bb) Calling of Share Capital Contributions. ....	76
cc) Repayment of Supplementary Contributions.....	76
dd) Division and Redemption of Shares.....	76
ee) Appointment, Removal and Discharge of Managing Directors.....	76
ff) Management Control. ....	77
gg) Appointment of Holders of a Prokura or of a General Power of Representation.....	77
hh) Disputes with Managing Directors or Shareholders.....	77
b) Passing of Resolutions with or without Meetings .....	77
c) Shareholder Meetings .....	78
aa) Reasons for Calling Shareholder Meetings.....	78
bb) Competence to Call Meetings.....	78
cc) Place of Meetings.....	78

dd) Form and Notice of Call of Meetings; Announcement of Subject Matters of Meetings.....	78
ee) Participation in Meetings.....	78
ff) Quorum.....	79
gg) Rules of Procedure, Chairman of the Meeting.....	79
d) Minutes of Shareholder Meetings; Resolutions.....	79
e) Majority Requirements; Voting Rights; Conflicts of Interest...	80
aa) Majority Requirements.....	80
bb) Voting Rights.....	80
cc) Conflicts of Interest.....	80
f) Defective Resolutions.....	81
3. Minority Protection; Duty of Loyalty; Principle of Equal Treatment.....	82
a) Minority Protection.....	82
b) Duty of Loyalty.....	83
c) Principle of Equal Treatment.....	83
VIII. Amendment of the Articles; Increase and Decrease of Share Capital.....	85
1. Amendment of the Articles.....	85
a) Shareholder Resolution.....	85
b) Application for Registration.....	86
c) Registration and Publication.....	86
2. Share Capital Increase.....	87
a) Increase by Contributions; Increase from Company Reserves.....	87
b) Increase by Contributions.....	87
aa) Shareholder Resolution.....	87
bb) Subscription to Share Capital Contributions.....	89
cc) Payment of Share Capital Contributions, Liability for Shortfall; Liability of Fellow Shareholders.....	89
dd) Application for Registration.....	90
ee) Registration.....	91
ff) Authorized Capital.....	91
c) Increase of Share Capital from Company Reserves.....	91
aa) Reserves Available for Increases.....	92
bb) Shareholder Resolution.....	92
cc) Application for Registration.....	93
dd) Registration and Publication.....	93
3. Ordinary Share Capital Decrease.....	93
a) Purpose of a Decrease.....	93
b) Procedure.....	94
aa) Shareholder Resolution.....	94
bb) Publication of Shareholder Resolution; Satisfaction or Securing of Creditors.....	94
cc) Application for Registration; One-Year Waiting Period.....	95
dd) Registration and Publication.....	95
4. Simplified Procedure for Share Capital Decrease.....	95
IX. Shareholder Exclusion or Withdrawal; Dissolution and Liquidation of the Company; Invalidity.....	97
1. General.....	97
2. Exclusion of a Shareholder.....	97
3. Shareholder Withdrawal from the Company.....	98

4. Dissolution and Liquidation of the Company .....	99
a) Cases of Dissolution .....	99
aa) By Expiration of the Term of the Company's Existence.....	99
bb) By Shareholder Resolution to Dissolve the Company.....	99
cc) By Decision of a Regional Court for Cause.....	99
dd) By Decision of an Administrative Court.....	99
ee) By the Institution of Insolvency Proceedings or the Denial of Institution due to Insufficient Assets.....	99
ff) By Court Decision Because of Defects in the Articles.....	99
gg) By Court Decision in Case of a Company without Assets..	100
hh) By Virtue of Special Reasons in the Articles.....	100
b) Registration; Publication; Creditor Notification.....	100
c) Effect of Dissolution; Liquidation.....	101
d) Liquidation.....	101
aa) Appointment of Liquidators.....	101
bb) Power of Representation.....	102
cc) Registration and Publication.....	102
dd) Duties and Responsibilities.....	102
e) Completion of Liquidation.....	103
aa) Distribution of Liquidation Proceeds.....	103
bb) Continued Availability of Books and Records.....	103
cc) Registration in the Commercial Register and Expiration of the Company's Existence.....	103
5. Invalidation of the Company .....	104
X. Taxation of the GmbH .....	105
1. Corporate Income Tax .....	105
2. Trade Tax .....	107
3. Net Assets Tax .....	108
4. Capital Investment Tax; Capital Transfer Tax.....	108
5. Real Estate Transfer Tax .....	108
XI. GmbH & Co. KG .....	109
1. General Features .....	109
2. Tax treatment .....	109
a) Income Taxation .....	109
b) Thin Capitalization Rules .....	110
c) Real Property Transfer Tax .....	110
3. Popularity among Investors .....	110
<b>Second Part. Act on Limited Liability Companies.....</b>	<b>111</b>
Act on Limited Liability Companies .....	114
<b>Third Part. Appendices .....</b>	<b>175</b>
Appendix A. Sample of Articles of Association of a GmbH .....	175
Appendix B. Samples of the Formation Documents of a GmbH .....	180
Appendix C. Extract from the Commercial Register .....	190
Appendix D. Classification of the Balance Sheet of a GmbH .....	192
<b>Index.....</b>	<b>197</b>