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FOCUS AREAS

Securities Fraud

Corporate Governance & M+A

EDUCATION

Washington University in St. Louis

B.A. 1992

University of Michigan School of Law

J.D. 1995

ADMISSIONS

Pennsylvania

California

New York

USDC, Eastern District of Pennsylvania

USDC, Northern District of California

USDC, Central District of California

USDC, Eastern District of California

USDC, Southern District of California

USDC, Western District of Tennessee

USDC, District of Colorado

USDC, Eastern District of Michigan

Eric L. Zagar, a partner of the Firm, co-manages the Firm’s Mergers and Acquisitions and Shareholder Derivative Litigation Group, which has excelled in the highly specialized area of prosecuting cases involving claims against corporate officers and directors.

Since 2001, Eric has served as lead or co-lead counsel in numerous shareholder derivative actions nationwide and has helped recover billions of dollars in monetary value and substantial corporate governance relief for the benefit of shareholders.

Current Cases

- Fannie Mae/Freddie Mac

*In re Fannie
Mae/Freddie
Mac Senior
Preferred
Stock
Purchase
Agreement
Class Action
Litigations*

CASE CAPTION

COURT

United
States
District
Court for
the District

USDC, Western District of Michigan		of Columbia
USCA, Third Circuit		Misc. Action
USCA, Fourth Circuit	CASE NUMBER	No. 13-mc-01288 (RCL)
USCA, Fifth Circuit		
USCA, Seventh Circuit	JUDGE	Honorable Royce C. Lamberth
USCA, Ninth Circuit		
United States Court of Federal Claims		
USDC, Northern District of Ohio	PLAINTIFF	Joseph Cacciapalle
USDC, Eastern District of Wisconsin		
	DEFENDANTS	Federal Housing Finance Agency ("FHFA"), the Federal National Mortgage Association ("Fannie Mae"), and the Federal Home Loan Mortgage Corporation ("Freddie Mac")

On August 14, 2023, after a three-week trial in the U.S. District Court for the District of Columbia, a federal jury unanimously found in favor of plaintiff shareholders of the Federal National Mortgage Association ("Fannie Mae"), and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). The jury found that in August 2012 the Federal Housing Finance Agency ("FHFA") breached the implied covenant of good faith and fair dealing inherent in the Fannie Mae and Freddie Mac shareholder contracts and awarded shareholders damages of \$612.4 million. Kessler Topaz served as Co-Lead Plaintiffs' counsel for this momentous trial verdict, which was reached after a decade of litigating stockholders' claims through multiple rounds of pleadings, appeals, and after a previous jury was unable to reach a verdict after a twelve-day trial in November 2022.

On September 6, 2008, at the height of the financial crisis, FHFA placed Fannie Mae and Freddie Mac into conservatorship, giving FHFA full authority to run the companies. The law authorizing conservatorship directed FHFA as conservator to "preserve and

conserve assets,” and FHFA told stockholders at that time that the conservatorship would be temporary, and was designed to return Fannie Mae and Freddie Mac to safe and solvent condition, and to return the entities to their stockholders.

Also in 2008, the U.S. Treasury bought senior preferred stock in Fannie Mae and Freddie Mac, and provided a funding commitment of up to \$100 billion for each of Fannie Mae and Freddie Mac in exchange for a 10% annual dividend on any amount Fannie Mae or Freddie Mac drew on the commitment. Treasury’s funding commitment was later raised to \$200 billion, and was later amended to be unlimited through the end of 2012. Treasury, Fannie Mae, and Freddie Mac memorialized this agreement in the Senior Preferred Stock Purchase Agreements (“PSPAs”). Treasury ultimately invested a total of \$189 billion in Fannie Mae and Freddie Mac to help support each companies’ critical mission of backstopping the nation’s housing finance system through the financial crisis.

Four years later, Fannie Mae and Freddie Mac had just posted their first two quarters of profitability in four years. The housing market was recovering, and Fannie Mae and Freddie Mac management projected that the companies were on their way to sustained profitability. Stockholders reasonably believed that Fannie Mae and Freddie Mac were on a path to begin building capital and ultimately exit conservatorship. Instead, with no notice to stockholders, on August 17, 2012, Treasury and FHFA agreed to amend the PSPAs, changing the 10% dividend into a “Net Worth Sweep.” The Net Worth Sweep required Fannie Mae and Freddie Mac to pay the full amount of their net worth to Treasury every quarter. As a result, Plaintiffs alleged that Fannie Mae and Freddie Mac were unable to build capital, or ever pay dividends to private shareholders, regardless of how profitable either company was.

The Net Worth Sweep has continued to sweep all of Fannie Mae’s and Freddie Mac’s profits to the U.S. Treasury every quarter since 2012, resulting in Treasury receiving over \$150 billion in dividends in excess of what it would have received under the original PSPAs, and all at stockholders’ expense. Moreover, Fannie Mae and Freddie Mac still remain in conservatorship after fifteen years.

Plaintiffs proved at trial that FHFA’s agreeing to the Net Worth Sweep was an “arbitrary and unreasonable” violation of stockholders’ reasonable expectations under their shareholder contracts. Plaintiffs sought \$1.61 billion in damages, which was the amount that Fannie Mae’s and Freddie Mac’s common and preferred stock prices collectively fell on August 17, 2012 when the Net Worth Sweep was announced. At trial, Plaintiffs called twelve witnesses, including stockholder class representatives, former Fannie Mae and Freddie Mac management, and three expert witnesses. Plaintiffs also cross-examined representatives of FHFA

and Defendants' expert, who opined that the Net Worth Sweep was reasonable.

After ten hours of deliberations, the jury awarded damages of \$612.4 million to Fannie Mae and Freddie Mac stockholders. Appeals are anticipated.

KTMC's trial team consisted of attorneys [Lee Rudy](#), [Eric Zagar](#), [Grant Goodhart](#), [Lauren Lummus](#), plus numerous additional staff.

The case is titled *In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations, No. 13-mc-1288 (RCL) (D.D.C.)*.

Settled

- CBS Corporation

CASE CAPTION	<i>In re CBS Corporation Stockholder Class Action and Derivative Litigation</i>
COURT	Delaware Court of Chancery
CASE NUMBER	Consolidated C.A. No. 2020-0111-JRS
JUDGE	Honorable Joseph R. Slights
PLAINTIFF	Bucks County Employees Retirement Fund
DEFENDANTS	ViacomCBS, Inc., Joseph Ianniello, Candace K. Beinecke, Barbara M. Byrne, Gary L. Countryman, Brian Goldner, Linda M.

Griego,
Martha L.
Minow, Susan
Schuman,
Frederick O.
Terrell,
Strauss
Zelnick,
Thomas J.
May, Judith A.
McHale,
Ronald
Nelson, Nicole
Seligman,
National
Amusements,
Inc., NAI
Entertainment
Holdings LLC,
Shari E.
Redstone,
Robert N.
Klieger and
the Sumner
M. Redstone
National
Amusements
Trust

In *In re CBS Corporation Stockholder Class Action and Derivative Litigation*, Consolidated C.A. No. 2020-0111-JRS, Kessler Topaz alleged that the merger of CBS and Viacom was unfair to CBS and its public shareholders because CBS was forced to overpay for Viacom's declining business. Kessler Topaz alleged that the merger was the culmination of a years-long effort by Shari Redstone, who controlled both CBS and Viacom, to combine the two companies in order to save her family's investment in the floundering Viacom as it suffered from industry headwinds due to consumers shifting away from cable television subscriptions. Ms. Redstone twice previously attempted to merge CBS and Viacom in the years leading up to the merger, but failed due to opposition by the board. Then, in 2019 after replacing a majority of directors on the CBS board, her third attempt to merge the two companies succeeded.

After the merger was announced in August 2019, Kessler Topaz quickly initiated a books and records investigation pursuant to Delaware law in order to investigate potential merger-related claims against CBS's board of directors. After negotiations over the scope of the investigation broke down, Kessler Topaz pursued its

clients' inspection rights through a successful books and records trial. After trial, the Delaware Court of Chancery ordered CBS to turn over significant additional documents, including internal communications. Kessler Topaz analyzed the documents received and used them to craft a 118- page complaint against CBS's board of directors in April 2020.

After successfully defeating the CBS board of directors' and Ms. Redstone's motions to dismiss in January 2021, the case moved into discovery and the parties prepared for trial. Kessler Topaz developed significant facts that the merger was concocted purely by Ms. Redstone and her advisors in order for CBS to bail out her failing interest in Viacom, a company comprised of a collection of cable-TV networks that was described by many as a "melting ice cube" due to the prevalence of "cord cutting." Ms. Redstone's hand-picked directors acquiesced to her plans, while hold-over directors from the previous board's opposition to the merger were sidelined throughout the process and given no substantive role. And because the market widely viewed Viacom as a weaker company without significant upside prospects, CBS's stock price plummeted in the wake of the merger announcement, costing shareholders hundreds of millions of dollars in value.

Trial in the case was set to begin in June 2023. On April 18, 2023, after extensive mediation, and after completing virtually all of fact and expert discovery, the parties reached an agreement to settle the action in exchange for a \$167.5 million cash payment by defendants and their insurance policies to CBS. The settlement was structured to reimburse CBS for its overpayment for Viacom.

Unlike in a class action, the settlement fund will not be distributed to CBS's minority stockholders, because the alleged harm was to CBS, the corporation, for overpaying for Viacom.

On September 6, 2023, Vice Chancellor Sam Glasscock of the Delaware Court of Chancery approved what he called an "extraordinary" \$167.5 million settlement.

[Read the Stipulation and Agreement of Settlement, Compromise, and Release Here](#)

[Read Notice of Pendency and Proposed Settlement of Stockholder Derivative and Class Action, Settlement Hearing, and Right to Appear Here](#)

- Comverse Technology, Inc.
In re Comverse Technology, Inc. Derivative Litigation, Index No. 601272/06 (N.Y. Sup. Ct.)
KTMC served as Co-Lead Counsel in a stockholder derivative action brought for the benefit of Comverse Technology, Inc. ("Comverse") to remedy a years-long stock option "backdating" scheme that unfairly enriched Comverse executives, including founder/Chairman/CEO Jacob "Kobi" Alexander, who

notoriously fled to Namibia to escape prosecution. After significant investigation and litigation, we negotiated a settlement that required Alexander and certain other executives to disgorge more than \$62 million in ill-gotten assets and overhauled the company's corporate governance and internal controls. Among other things, the new measures replaced a number of directors and corporate executives, split the Chairman and CEO positions, and instituted majority voting for directors.

- **EchoStar Corporation**
On December 9, 2021, Judge Susan Johnson of the Clark County, Nevada District Court approved a \$21 million settlement to resolve class action litigation concerning the August 19, 2019 sale of the majority of EchoStar Corporation's broadcast satellite services business to DISH Network Corp. in exchange for DISH Class A Common stock. Representing the City of Hallandale Beach Police Officers' and Firefighters' Personnel Retirement Trust, Kessler Topaz brought a class action on behalf of the public shareholders of EchoStar alleging Charles Ergen, the controlling shareholder of EchoStar and DISH, orchestrated the transaction through an unfair process and for unfair consideration in order to benefit DISH at EchoStar's expense, thereby breaching his fiduciary duties to EchoStar's minority shareholders and that Ergen was aided and abetted by the EchoStar and DISH defendants.
- **Erickson Incorporated**
Kessler Topaz represented an individual stockholder who asserted in the Delaware Court of Chancery class action and derivative claims challenging merger and recapitalization transactions that benefitted the company's controlling stockholders at the expense of the company and its minority stockholders. Plaintiff alleged that the controlling stockholders of Erickson orchestrated a series of transactions with the intent and effect of using Erickson's money to bail themselves out of a failing investment. Defendants filed a motion to dismiss the complaint, which Kessler Topaz defeated, and the case proceeded through more than a year of fact discovery. Following an initially unsuccessful mediation and further litigation, Kessler Topaz ultimately achieved an \$18.5 million cash settlement, 80% of which was distributed to members of the stockholder class to resolve their direct claims and 20% of which was paid to the company to resolve the derivative claims. The settlement also instituted changes to the company's governing documents to prevent future self-dealing transactions like those that gave rise to the case.
- **Facebook, Inc.**
Just one day before trial was set to commence over a proposed

reclassification of Facebook's stock structure that KTMC challenged as harming the company's public stockholders, Facebook abandoned the proposal.

The trial sought a permanent injunction to prevent the reclassification, in lieu of damages. By agreement, the proposal had been on hold pending the outcome of the trial. By abandoning the reclassification, Facebook essentially granted the stockholders everything they could have accomplished by winning at trial.

As background, in 2010 Mark Zuckerberg signed the "Giving Pledge," which committed him to give away half of his wealth during his lifetime or at his death. He was widely quoted saying that he intended to start donating his wealth immediately. Facebook went public in 2012 with two classes of stock: class B with 10 votes per share, and class A with 1 vote per share. Public stockholders owned class A shares, while only select insiders were permitted to own the class B shares. Zuckerberg controlled Facebook from the IPO onward by owning most of the high-vote class B shares.

Facebook's charter made clear at the IPO that if Zuckerberg sold or gave away more than a certain percentage of his shares he would fall below 50.1% of Facebook's voting control. The Giving Pledge, when read alongside Facebook's charter, made it clear that Facebook would not be a controlled company forever.

In 2015, Zuckerberg owned 15% of Facebook's economics, but though his class B shares controlled 53% of the vote. He wanted to expand his philanthropy. He knew that he could only give away approximately \$6 billion in Facebook stock without his voting control dropping below 50.1%.

He asked Facebook's lawyers to recommend a plan for him. They recommended that Facebook issue a third class of stock, class C shares, with no voting rights, and distribute these shares via dividend to all class A and class B stockholders. This would allow Zuckerberg to sell all of his class C shares first without any effect on his voting control.

Facebook formed a "Special Committee" of independent directors to negotiate the terms of this "reclassification" of Facebook's stock structure with Zuckerberg. The Committee included Marc Andreessen, who was Zuckerberg's longtime friend and mentor. It also included Susan Desmond-Hellman, the CEO of the Gates Foundation, who we alleged was unlikely to stand in the way of Zuckerberg becoming one of the world's biggest philanthropists.

In the middle of his negotiations with the Special Committee, Zuckerberg made another public pledge, at the same time he and his wife Priscilla Chan announced the birth of their first child. They announced that they were forming a charitable vehicle, called the "Chan-Zuckerberg Initiative" (CZI) and that they intended to give away 99% of their wealth during their

lifetime.

The Special Committee ultimately agreed to the reclassification, after negotiating certain governance restrictions on Zuckerberg's ability to leave the company while retaining voting control. We alleged that these restrictions were largely meaningless. For example, Zuckerberg was permitted to take unlimited leaves of absence to work for the government. He could also significantly reduce his role at Facebook while still controlling the company.

At the time the negotiations were complete, the reclassification allowed Zuckerberg to give away approximately \$35 billion in Facebook stock without his voting power falling below 50.1%. At that point Zuckerberg would own just 4% of Facebook while being its controlling stockholder.

We alleged that the reclassification would have caused an economic harm to Facebook's public stockholders. Unlike a typical dividend, which has no economic effect on the overall value of the company, the nonvoting C shares were expected to trade at a 2-5% discount to the voting class A shares. A dividend of class C shares would thus leave A stockholders with a "bundle" of one class A share, plus 2 class C shares, and that bundle would be worth less than the original class A share. Recent similar transactions also make clear that companies lose value when a controlling stockholder increases the "wedge" between his economic ownership and voting control. Overall, we predicted that the reclassification would cause an overall harm of more than \$10 billion to the class A stockholders.

The reclassification was also terrible from a corporate governance perspective. We never argued that Zuckerberg wasn't doing a good job as Facebook's CEO right now. But public stockholders never signed on to have Zuckerberg control the company for life. Indeed at the time of the IPO that was nobody's expectation. Moreover, as Zuckerberg donates more of his money to CZI, one would assume his attention would drift to CZI as well. Nobody wants a controlling stockholder whose attention is elsewhere. And with Zuckerberg firmly in control of the company, stockholders would have no recourse against him if he started to shirk his responsibilities or make bad decisions.

We sought an injunction in this case to stop the reclassification from going forward. Facebook already put it up to a vote last year, where it was approved, but only because Zuckerberg voted his shares in favor of it. The public stockholders who voted cast 80% of their votes against the reclassification. By abandoning the reclassification, Zuckerberg can still give away as much stock as he wants. But if he gives away more than a certain amount, now he stands to lose control. Facebook's stock price has gone up a lot since 2015, so Zuckerberg can now give away approximately \$10 billion

before losing control (up from \$6 billion). But then he either has to stop (unlikely, in light of his public pledges), or voluntarily give up control. There is evidence that non-controlled companies typically outperform controlled companies.

KTMC believes that this litigation created an enormous benefit for Facebook's public class A stockholders. By forcing Zuckerberg to abandon the reclassification, KTMC avoided a multi-billion dollar harm. We also preserved investors' expectations about how Facebook would be governed and when it would eventually cease to be a controlled company. KTMC represented Sjunde AP-Fonden ("AP7"), a Swedish national pension fund which held more than 2 million shares of Facebook class A stock, in the litigation. AP7 was certified as a class representative, and KTMC was certified as co-lead counsel in the case.

- GCI Liberty Inc.

On October 5, 2021, Vice Chancellor Glasscock of the Delaware Court of Chancery approved a \$110 million settlement against John Malone and other former members of GCI Liberty Inc.'s board of directors in a case involving a challenge to the telecom holding company's merger with its affiliate, Liberty Broadband Corp. The outstanding result was in addition to substantial equitable relief obtained via the parties' November 21, 2020 settlement of plaintiffs' suit to preliminarily enjoin the merger.

On behalf of plaintiff Sheet Metal Workers' Local Union No. 80 Pension Trust Fund, KTMC had brought a class action alleging that Malone and CEO Greg Maffei used their super-voting shares to opportunistically merge the companies in an all-stock deal at a time when the exchange ratio was tilted in their favor due to market volatility created during the Covid-19 pandemic.

After weeks of expedited discovery, the defendants issued new disclosures and drastically altered the previously announced terms of the deal by agreeing to convert the super-voting shares into shares of one-vote common stock, so that Malone and Maffei would no longer obtain special treatment resulting in outsized control of the post-merger company.

Subsequently, plaintiffs amended their complaint and successfully pursued monetary relief to correct for the unfair merger price that resulted from Malone's previously undisclosed, improper leveraging of his control position.

- Stock Option Backdating Litigation

In 2006, the Wall Street Journal reported that three companies appeared to have "backdated" stock option grants to their senior executives, pretending that the options had been awarded when the stock price was at its lowest price of the quarter, or even year. An executive who exercised the option

thus paid the company an artificially low price, which stole money from the corporate coffers. While stock options are designed to incentivize recipients to drive the company's stock price up, backdating options to artificially low prices undercut those incentives, overpaid executives, violated tax rules, and decreased shareholder value.

Kessler Topaz worked with a financial analyst to identify dozens of other companies that had engaged in similar practices, and filed more than 50 derivative suits challenging the practice. These suits sought to force the executives to disgorge their improper compensation and to revamp the companies' executive compensation policies. Ultimately, as lead counsel in these derivative actions, Kessler Topaz achieved significant monetary and non-monetary benefits at dozens of companies, including:

Comverse Technology, Inc.: Settlement required Comverse's founder and CEO Kobi Alexander, who fled to Namibia after the backdating was revealed, to disgorge more than \$62 million in excessive backdated option compensation. The settlement also overhauled the company's corporate governance and internal controls, replacing a number of directors and corporate executives, splitting the Chairman and CEO positions, and instituting majority voting for directors.

Monster Worldwide, Inc.: Settlement required recipients of backdated stock options to disgorge more than \$32 million in unlawful gains back to the company, plus agreeing to significant corporate governance measures. These measures included (a) requiring Monster's founder Andrew McKelvey to reduce his voting control over Monster from 31% to 7%, by exchanging super-voting stock for common stock; and (b) implementing new equity granting practices that require greater accountability and transparency in the granting of stock options moving forward. In approving the settlement, the court noted "the good results, mainly the amount of money for the shareholders and also the change in governance of the company itself, and really the hard work that had to go into that to achieve the results..."

Affiliated Computer Services, Inc.: Settlement required executives, including founder Darwin Deason, to give up \$20 million in improper backdated options. The litigation was also a catalyst for the company to replace its CEO and CFO and revamp its executive compensation policies.

- Viacom, Inc.
Served as lead counsel on behalf of the Mississippi Public Employees' Retirement System in an action alleging that the Board of Directors of Viacom, Inc. (Viacom) breached its fiduciary duties by paying excessive and unwarranted compensation to Executive Chairman and CEO, Sumner M. Redstone, and co-COOs Thomas E. Freston and Leslie Moonves,

at a time when the company was suffering record losses. Specifically, in 2004, when Viacom reported a net loss of \$17.46 billion, the Board improperly approved compensation payments to Redstone, Freston, and Moonves of approximately \$56 million, \$52 million, and \$52 million, respectively. Under a settlement reached in 2007, Executive Chairman and controlling shareholder Redstone agreed to a new compensation package that substantially reduced his annual salary and cash bonus, and tied the majority of his incentive compensation directly to shareholder returns.

News

- August 15, 2023 - KTMC Wins Historic \$612 Million Jury Verdict For Fannie Mae and Freddie Mac Stockholders
- September 22, 2017 - Facebook and Founder Mark Zuckerberg Capitulate To KTMC On Eve Of Trial
- May 8, 2017 - Kessler Topaz Again Named Class Action Litigation Department of the Year by The Legal Intelligencer

Speaking Engagements

Eric has been a featured speaker on shareholder derivative litigation at national and international conferences, including the Rights & Responsibilities of Institutional Investors in Amsterdam, Netherlands, the Practising Law Institute's Annual Securities Regulation Institute in San Francisco, California, and the American College of Business Court Judges Annual Meeting in Chicago, Illinois.

Publications

A Review of Options Backdating Settlements and Corporate Governance, 2 *Journal of Securities Law, Regulation & Compliance* 236 (2009)