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## NOTES

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### PURCHASE BY A CORPORATION OF ITS OWN PREFERRED SHARES WITH DIVIDENDS IN ARREARS

A frequent theme in discussions of corporate finance is the weak position of the preferred shareholder in the typical corporate structure. The common shareholders, by virtue of their greater voting rights and ultimate control of management, have a position of superior power which can be exploited to enrich the common at the expense of the preferred shareholders. This power is often exercised to eliminate dividend arrearages on cumulative preferred stock by means of charter amendments, mergers, and sales of corporate assets, on terms of questionable fairness to preferred shareholders. Although such use of these devices has provoked continuing criticism,<sup>1</sup> another means of arrearage

<sup>1</sup> Scaling Down of Arrearages on Cumulative Preferred Stock, 4 Univ. Chi. L. Rev. 645 (1937); Dodd, Fair and Equitable Recapitalizations, 55 Harv. L. Rev. 780 (1942); Becht, The Power to Remove Accrued Dividends by Charter Amendment, 40 Col. L. Rev. 633 (1940); Dodd, Accrued Dividends in Delaware Corporations—From Vested Right to Mirage, 57 Harv. L. Rev. 894 (1944).