


New York Law Journal

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Minority Shareholders, ADS Holders in Renren Company Settle NY Derivative Action for \$300M

"The shareholder derivative suit arises from a highly unusual series of interrelated transactions through which Renren's allegedly corrupt insiders took Renren's investment portfolio for themselves in 2018 to the detriment of minority shareholders," said a news release from Reid Collins, counsel to plaintiff stakeholders in Renren.

By Jason Grant | October 13, 2021



Executives and guests of Renren attend the opening bell ceremony, Wednesday, May 4, 2011, in New York at the NYSE. Photo: AP/NYSE Euronext/Adam Au

In what plaintiffs' lawyers are calling one of the largest-ever derivative shareholder recoveries, minority shareholders and American Depository shareholders of the Chinese-founded company Renren will receive at least \$300 million.

The settlement in the complex breach-of-fiduciary-duty lawsuit, lodged in Manhattan Supreme Court's Commercial Division, comes after three years of feverishly fought litigation in which the plaintiffs—who are minority stakeholders in Renren—alleged that they were bilked by controlling company stockholders who in 2018 devised a way to transfer a billion-dollar investment portfolio from Renren to a separate company they controlled, according to a news release about the settlement from plaintiffs' counsel at Reid Collins & Tsai and court records.

"The shareholder derivative suit arises from a highly unusual series of interrelated transactions through which Renren's allegedly corrupt insiders took Renren's investment portfolio for themselves in 2018 to the detriment of minority shareholders," the Reid Collins release said.

“On September 14, 2017, OPI [Oak Pacific Investment] was formed as a Cayman Islands corporation and as a direct wholly-owned subsidiary of Renren for the purpose of Renren’s transfer of its Investments,” alleged an amended and supplemental consolidated stockholder derivative complaint in the suit. “Subsequently, Renren transferred to OPI minority interests in 44 portfolio companies, among other things ... including all of Renren’s shares of SoFi,” also known as or Social Financing Inc., a popular U.S.-based lending company, “which constituted, by value, Renren’s largest single investment.

As part of the hard-fought lawsuit, the Renren controlling-stockholder defendants, including Joseph Chen, the company’s founder, chairman and CEO, had argued there was no standing for plaintiff stakeholders to bring the lawsuit under applicable laws of the Cayman Islands, according to certain plaintiffs’ counsel in the lawsuit. Both Renren and the alleged “spin-off” company, Oak Pacific Investment, where Renren’s major investment assets were transferred, were incorporated in the Cayman Islands, according to lawsuit allegations.

The Renren defendants also had argued in the New York state-based suit that the Oak Pacific assets were not reachable as a remedy in the lawsuit, according to plaintiffs’ counsel.

But in May 2020, the plaintiffs in the derivative suit beat various motions to dismiss that had been lodged by Chen and the other Renren defendants, via a ruling handed down by Manhattan Supreme Court Commercial Division Justice Andrew Borrok, according to the Reid Collins release and court documents.

In a later ruling, the Appellate Division, First Department court, which has jurisdiction over appeals from Manhattan Supreme Court, affirmed Borrok’s denial of the motions to dismiss, according to Reid Collins and court records. Both the Manhattan Supreme Court and the appellate court turned back defendants’ arguments over personal jurisdiction as well as arguments over the standing of the stakeholder plaintiffs, Reid Collins said.

The Manhattan Supreme Court, on remand, attached all of the assets that Oak Pacific had gotten in the controversial 2018 asset-transfer transaction, and Borrok required any sales proceeds based on the investment portfolio up to \$560 million be deposited in a New York escrow account, according to Reid Collins.

The 76-page settlement document

([//images.law.com/contrib/content/uploads/documents/292/653594_2018_IN_RE_RENREN_INC_DEI](https://images.law.com/contrib/content/uploads/documents/292/653594_2018_IN_RE_RENREN_INC_DEI)) was signed by the attorneys for the respective parties late on Oct. 7, and the settlement was made public Friday.

William Reid, a founding member of Reid Collins, said in a statement, “This is an extraordinary result by any measure. It is very rare to settle a case for more than the damages that we originally pleaded. Yet indeed, from the vantage point of minority shareholders, we have recovered more for them in this direct pay settlement than the damage claim we set forth in the [2018] complaint.”

Reid added, “Obtaining jurisdiction over these foreign defendants was no small task, but obtaining derivative standing was an even greater achievement. What little New York law existed on establishing derivative standing under Cayman law was adverse, but the facts of this case and a

thorough presentation of Cayman law nonetheless allowed us to establish that the minority were in fact entitled to pursue the company's claim under the 'fraud on the minority' exception to the general rule against derivative standing."

Defense counsel at Paul Weiss Rifkind Wharton & Garrison could not be reached for comment on Friday. Paul Weiss partner Allan Arffa, among other Paul Weiss lawyers, represented defendants Joseph Chen, Oak Pacific Investment, Renren Lianhe Holdings, and Renren SF Holdings, Inc.

Plaintiffs' counsel for the minority-stake shareholders included Reid Collins, Grant & Eisenhofer, Ganfer Shore Leeds & Zauderer, and Gardy & Notis, as well as two Texas-based lawyers, Nathaniel Palmer and Michael Yoder, according to the signed Stipulation of Settlement.

Defense counsel included Paul Weiss and McDermott Will & Emery, both of which represented defendants Joseph Chen, Oak Pacific Investment, Renren Lianhe Holdings and Renren SF Holdings Inc., according to the settlement stipulation.

In addition, Winston & Strawn and Chicago-based lawyer Stephen D'Amore were counsel for defendant Duff & Phelps.

Orrick, Herrington & Sutcliffe and New York-based lawyer William Foley represented defendant Social Finance Inc.

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