**CHAPTER 22-LIFE AND DEATH OF A CORPORATION**

**TRUE/FALSE**

1. Zach decided to incorporate his business under the name of "Zamm." In addition to "Zamm," the Model Act requires that Zach include one of the following words: "corporation," "incorporated," "limited," or "company" or an abbreviation thereof.

2. Generally, managers that make informed decisions will not be liable even if their decision turned out badly.

3. A corporation must have a registered agent within the state of incorporation only if the corporation maintains an office in that state.

4. Under corporate law, a corporation that officially states its purpose is "to engage in any lawful activity for which corporations may be organized under the General Corporation Law of Idaho" is too broad. A corporation's purpose must be more narrowly defined.

5. Controlling shareholders have no fiduciary responsibility to minority shareholders.

6. A corporation is not allowed to issue dividends to shareholders unless it is solvent.

7. Sara decided to incorporate her business under the name Gomo, Inc. Before Gomo was incorporated, Sara signed a contract in the name of Gomo, Inc. to lease a store front. Sara did not tell the other party that Gomo was not yet formed. Sara is personally liable on the lease.

8. Incorporators are required to sign the charter, deliver it to the proper state officials, and purchase a certain percentage of the initial stock offering.

9. A director violates the corporate opportunity doctrine if he or she competes with the corporation, unless the disinterested directors approve of the director's actions.

10. Owners of preferred stock typically have a preference in liquidation.

11. Common stock is last stock in line for any corporate payouts, including dividends and liquidation payments.

12. A *domestic* corporation is a corporation that deal with non commercial matters.

13. Terminating a corporation is a three-step process: dissolution, winding up, and termination.

14. Corporate shareholders who undercapitalize their corporations and do not keep their corporate books are in jeopardy of having their corporation pierced and becoming personally liable for the debts of the corporation.

15. A corporation is required to have at least one class of stock with voting rights.

**MULTIPLE CHOICE**

1. Carey decided to incorporate her business under the name yStar Inc. Before yStar was incorporated, Carey signed a contract in the name of yStar, Inc. to have some office space remodeled. Which statement is correct?

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| a. | yStar is liable on the contract because the contract was signed in its name. |
| b. | yStar becomes liable on the contract as soon as it is incorporated. |
| c. | yStar is liable on the contract if the contractor knows that the corporation does not yet exist. |
| d. | yStar will be liable on the contract only if the corporation adopts the contract. |

2. Under the Business Judgment Rule:

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| a. | Managers have to act in good faith |
| b. | Managers might have to prove how their decisions was fair to the shareholders. |
| c. | Managers will not be held liable for the damage their decisions cause the company. |
| d. | All of the above |

3. A corporate charter is filed with:

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| a. | a state's Secretary of State office. |
| b. | a state's Treasury and/or Revenue Division. |
| c. | the United States Department of Commerce. |
| d. | All the above. |

4. MegaCorp purchased 10,000 shares of its own stock that had previously been owned by private investors. The stock MegaCorp repurchased is called:

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| a. | authorized and unissued. |
| b. | authorized and issued. |
| c. | treasury stock. |
| d. | repurchased stock. |

5. Self dealing by a manager of a corporation:

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| a. | must be approved by at least one directors of the corporation |
| b. | cannot be mad valid by the shareholders. |
| c. | always violate the corporate opportunity doctrine. |
| d. | must be entirely fair to the corporation. |

6. Defining a corporation with such information as the corporate name, the number and type of authorized shares of stock, identification of the purpose and the agent, is done through the:

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| a. | charter. |
| b. | articles of incorporation. |
| c. | certificate of organization. |
| d. | All of the above. All of these terms are used to identify the same document. |

7. What is true about annual shareholders’ meetings?

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| a. | All shareholders must attend to vote on issues. |
| b. | can be waived by a majority of shareholders in a non publicly held corporation. |
| c. | are required by all states if they are publicly traded companies. |
| d. | all of these answers are true. |

8. Corporate stock can be divided into classes called \_\_\_\_\_\_\_\_, which can be further divided into \_\_\_\_\_\_\_\_.

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| a. | authorized shares, preferred |
| b. | preferred, common |
| c. | equity, common |
| d. | debentures, classes. |

9. Incorporation protects:

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| a. | shareholders against personal liability for the debts of the company. |
| b. | anyone involved in management of the business against personal liability for wrongdoing. |
| c. | the public from wrongdoing by either the shareholders or the management of the corporation. |
| d. | All the above are correct. |

10. Mike is planning on incorporating his business in the state of Delaware. The corporate name of Mike's business must be different from:

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| a. | that of any corporation that already exists in Delaware. |
| b. | that of any limited liability company in Delaware. |
| c. | the name of any sole proprietorship in Delaware. |
| d. | all of the above. |

11. Fashions, Inc. has 12 shareholders. There is no shareholder agreement concerning the board of directors. The company is subject to the Model Act. How many directors is Fashions, Inc. required to have?

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| a. | None. |
| b. | One. |
| c. | Two. |
| d. | Five. |

12. Fashions, Inc. has 12 shareholders. The company is subject to the Model Act. What officers is Fashions, Inc. required to have?

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| a. | A president, secretary, and treasurer. |
| b. | A president and a secretary, and they can be the same person. |
| c. | A president, at least one vice-president, a secretary, and a chief financial officer. |
| d. | Whatever officers are described in the corporate bylaws. |

13. The officers of a corporation are:

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| a. | chosen by the board of directors. |
| b. | appointed by the president of the company. |
| c. | elected by shareholders. |
| d. | appointed by the Secretary of State. |

14. The Dodd Frank Wall Street Reform and Consumer Protection Act:

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| a. | requires companies every three years to take a binding shareholder vote on executive compensation. |
| b. | requires companies every three years to take a non- binding shareholder vote on executive compensation. |
| c. | requires companies every three years to take a binding board of directors’ vote on executive compensation. |
| d. | not include in its charter any provisions regarding indemnification of directors. |

15. Under Sarbanes Oxley what is true?

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| a. | If a company restates its earnings the executive must reimburse its company for any profit they made based on those misstated earnings. |
| b. | a company may not restate its earnings. |
| c. | Executives may retain their bonus even if the earnings of the corporation are restated. |
| d. | None of the above are correct. |

16. Why do so many corporations incorporate in Delaware?

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| a. | Delaware has laws that favor Management. |
| b. | Delaware has an efficient court system with courts that on serve businesses. |
| c. | It have a lot of precedent making the outcome of litigation more predictable. |
| d. | All of these answers are true. |

17. MegaCorp is incorporated in the state of Delaware and is registered only in Delaware. Jolene purchased a MegaCorp product from a company's sales representative following a presentation in Michigan. Jolene was seriously injured by the product in Michigan. Under the Model Act, if Jolene sues in Michigan, can MegaCorp defend the suit there?

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| a. | MegaCorp may only defend against a lawsuit in Michigan if it first registers by paying back fees, taxes, and penalties. |
| b. | Yes, MegaCorp can bring or defend against a lawsuit in any state regardless of whether the corporation is registered to business in that state. |
| c. | Yes, MegaCorp can defend against a lawsuit in Michigan regardless of whether MegaCorp is registered to do business in that state. |
| d. | No. Jolene must sue and MegaCorp may defend a lawsuit only in Delaware. |

18. What is meant by the term "piercing the corporate veil"?

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| a. | Corporate directors and/or officers may be held personally liable to a person damaged by an act of the corporation. |
| b. | Corporate shareholders may be held personally liable to a person damaged by an act of the corporation. |
| c. | Both of the above. |
| d. | None of the above. |

19. The executives of Jornaginn Corporation have decided they need to sell 50,000 additional shares of stock to finance their expansion plans. The executives:

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| a. | cannot sell that many shares unless they were authorized initially in the corporate charter. |
| b. | can sell as many shares as the market will bear. |
| c. | are limited by the number of shares authorized in the corporate charter, but this number can be increased by amending the charter and paying a fee. |
| d. | can sell the shares only if the shares have a par value which is close to the current market price. |

20. Who has the right to manage the business of a corporation?

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| a. | Shareholders. |
| b. | Officers. |
| c. | Bondholders. |
| d. | The board of directors. |

21. Who establishes executive compensation?

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| a. | The board of directors. |
| b. | The shareholders. |
| c. | The officers themselves. |
| d. | An independent CPA firm. |

22. A corporation must obtain shareholder approval before the company:

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| a. | sells off a major portion of its business to another company. |
| b. | amends its bylaws. |
| c. | amends its charter. |
| d. | All the above are correct. |

23. Luella just purchased 5 shares of common stock in TriColor, Inc. for $250. Luella has the right to:

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| a. | manage the day-to-day business of the corporation. |
| b. | set executive compensation. |
| c. | require that a proposal be placed in the company’s proxy statement to be voted on at the shareholder meeting. |
| d. | vote to elect directors. |

24. If a court determines a manager's corporate decision amounted to self-dealing:

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| a. | the business judgment rule will not apply. |
| b. | the transaction being challenged will be automatically voided. |
| c. | the manager is automatically personally liable to the corporation. |
| d. | All the above. |

**ESSAY**

1. What are some of the advantages for a business to incorporate in Delaware?

2. Discuss how a corporation is terminated.

3. MegaCorp has five directors. The company has 1,050 shares of voting stock. Jessica would like to purchase enough stock to elect herself to the board of directors. The company allows for cumulative voting. Explain the concept of cumulative voting and also state how many shares of MegaCorp stock Jessica will need to own to assure herself a place on the board of directors.

4. Identify four circumstances that might persuade a court to pierce the corporate veil.

5. Define and discuss the purposes of the "business judgment rule."

6. Discuss how the Sarbanes-Oxley Act affects Haletronne Co., a publicly traded corporation.