

Instructions:

This is a closed book, 3 hour examination, consisting of 3 questions. Assume everything happens in Massachusetts, unless clearly stated otherwise. The first question is worth 30 points, the second is worth 25 points, and the third is worth 25 points, for a total of 80 points. Your quiz grade accounts for the remaining 20 points.

I wish you the best of luck, and I hope that you have a safe and happy holiday season.

QUESTION ONE (30 points)

Kukla, Fran and Wally worked at a local auto body and detailing shop called SweetStreet Treats, Inc. (SSTI, for short). Kukla got hired right out of high school almost 15 years ago. 10 years ago, when the company had a pretty good year, she was given a bonus of 100 shares of the company. The rest of the shares were owned by the company's founders, Taylor Sheeran and Drake Lupa.

The job descriptions of the three employees consisted of thoroughly cleaning the interiors of cars, trucks, and buses which came in for service, and when things were not so busy, cleaning up inside the 30,000 square foot building. They were aching to be rich, so they were always brainstorming about new ideas, something that would make them rich beyond their wildest dreams, or at least rich enough to quit their jobs and go golfing all day.

One day, Kukla was talking to one of the bus drivers, Daisy, and she told Kukla that her boss was looking to expand operations and start a side business to make car, bus, and truck interiors smell a whole lot better. She also told Kukla that her own research showed that drivers like the smell of fruit while they drove (as did kids in buses and cars), and there was just no good item out there which could do the trick. She was going to talk to Taylor and Drake about it, but they never seemed to be around.

It turns out that Kukla had a degree in Marketing, Fran had a college degree in biology, and Wally had a college degree in Chemistry. So it should come as no surprise that they built their prototype, going through iteration after iteration. Then they began testing it at work, much to the delight/disgruntlement of the drivers, who were more than willing to pay them \$20 each for the amazing scented items, which were shaped and colored like real fruit, and which could be hung on their rear view mirrors.

The new product really seemed to work, so they went to an attorney, fresh out of Harvard Law School, named Malcolm Practisse, and he concocted the following rather byzantine

scheme. First, he duly formed a corporation, KFW Industries, Inc. Each of the founders would receive 33 shares of stock. All three were on the Board of Directors, and all three were named as corporate officers. Then he made each of them limited partners in the duly formed KFW Limited Partnership, with KFW Industries, Inc. as the sole general partner. The Kukla, Fran, and Wally were skeptical, thinking that setting things up this way might possibly be illegal, but they trusted Mal. He said it was to limit their liability in case something bad should happen.

Which, of course, it did.

Unfortunately, when Mal filed the Articles of Incorporation, he forgot to include the number of authorized shares, and the Articles were rejected by the Office of the Secretary of State, and returned to him. He fixed the mistake and sent them back to be filed. However, before the Articles were resubmitted to the Secretary of State and accepted, Kukla entered into a written contract (as a Director of KFW) with a local trucking firm to provide delivery services for 2 years at the rate of \$100 per delivery. After the first delivery, they decided they didn't like the driver, a loser named Moe Mevlin, and they told the firm the contract was cancelled.

Fran and Wally quit their jobs at SSTI on the same day, even though it was in their contract that if they should leave, they had to give two weeks' notice. SSTI took a small financial hit because of their actions. And when the owner of SSTI found out about their side hustle, he immediately fired Kukla, but not before first offering to buy back her stock.

The patented product, called SweetScents, was were an instant hit. KFW Limited Partnership made an awful lot of money. But it soon became apparent that the new item was causing people to get sick (apparently, the darn things caused some people to vomit uncontollably).

One corporation, United Fleets, Inc., bought 10,000 of the product (before they started making people rush to the ER), but it ran into financial difficulties, so it sold all of its stock and merged into a publicly held Massachusetts company named Devos Fleet Service, Inc. United Fleets, Inc. then dissolved, distributing all of its cash to its shareholders, after paying off known creditors.

Bob Bevlin, an independent long-haul trucker, bought one of the product because he was driving from Andover to Las Vegas with a delivery. He passed out (you know why) while driving through Ohio, and he ran off the road and crashed, and died. He left behind a grieving widow and 10 kids.

Word was slowly getting around about the possible harmful effects of the product. Yesterday, Greg Garrius a very clever attorney, inherited 25 shares of stock in Devos Fleet Service, Inc. and immediately filed a shareholder derivative action on behalf of the corporation, alleging that all of the directors were self dealing, and therefore no demand needed to be made.

This morning, the FDA issued an emergency nationwide recall of the product.

THOROUGHLY DISCUSS THE RIGHTS AND LIABILITIES OF THE PARTIES, INCLUDING ANY APPLICABLE REMEDIES.

QUESTION TWO (25 points)

Bobbie Sue Bluestockings came from a very wealthy family. She was all set to inherit the wealth from her parents, but little else. Even with the best of tutors, she barely made it out of high school. College seemed like a waste of time. So instead, she took riding lessons at the local club, known as The Equestrian's Dream.

By lesson three, it became apparent to her instructor, Hector, that she barely had enough coordination to walk, and proficiency at riding was never going to happen. He nonetheless encouraged her to take more lessons, telling Bobby Sue that she was improving. Hector did this because he got paid a commission on every pupil he instructed. It didn't take long for Bobby Sue to fall head over heels in love with Hector. Sometimes, instead of riding, Bobby Sue would use her paid lesson time and just sit in the stable with Hector while he told her stories of how someday he would own his own stable, with grand horses, and they would put on spectacular feats of riding prowess for the general public and make tons of money.

Bobby Sue was surely smitten. So smitten that she offered to go into business with Hector in purchasing and running a stable. She told him she would put up all of the money, and take all of the risk of loss. He would only have to bring his expertise into the deal. Hector, not one to look a gift horse (!) in the mouth, told Bobbie Sue that he would have to think it over, but that was a very enticing proposal, for the both of them. Bobbie Sue, so excited, jumped over a bale of hay and hugged Hector, and then ran out of the stable, telling him that she would set everything up.

Hector should have known that would be a big mistake.

Bobbie Sue left the stable and ran toward her baby blue Mercedes convertible in the Club's parking lot. Before she got there, she slipped and fell on some horse droppings which had not been picked up. The horse droppings had not been picked up because George, an employee of Cleaner Horse Farms, Inc., the corporation hired to keep the Club spotless, was not at the Club that day, because he was off at the house of his supervisor, Ben, cleaning out Ben's gutters. Bobbie Sue broke her elbow in the fall.

Undaunted, she continued on, and was driving the Mercedes to her attorney's office when she ran over a little old lady. The little old lady was named Bertha, of course. That's what you get when you are distracted, in love, and your elbow is swelling and throbbing mightily.

After Hector left the stable, he went to shower in the employee's locker room, and he was cutting through the pool area (which stable people were absolutely forbidden to enter, because it was reserved for members of the Club only, and, well, stable people smelled) when he slipped and fell on a small section of wet tile. He came down hard, and broke both his elbows and suffered a pretty bad case of whiplash.

Bobbie Sue's attorney, Vlad Putting, told her he would form an LLC, because he "knew so much about them". She explained that she was willing to pay all of the expenses, and that she would split all profits 50-50 with her dreamboat, Hector. He filed the necessary paperwork the next day, and BSB, LLC was born. After she left her attorney's office, she immediately bought 10 Arabian horses and a 50 acre ranch at a local auction, all on credit, signing all of the paperwork as the owner of Bobby Sue/Hector Grand Shows Company, a name she dreamed up while driving (the auctioneers were well aware of who her parents were).

She then went to the hospital where, as fate would have it, she ran into Hector, and told him the wonderful news.

A few other things you should note. Bobbie Sue's parents were actually teetering on the brink of bankruptcy, having trusted their entire portfolio to Thurston Howlow III, a partner in the investment firm of Smith, Barney, and Rubble, Inc., which was incorporated in the wonderful state of South Tennessee. Thurston invested the money very imprudently. What's more, Smith, Barney, and Rubble, Inc. kept great client records, but kept no corporate records. They hadn't had a single Board of Directors meeting or stockholder meeting in over 6 years. Larry Lawsuit, a local attorney in South Tennessee, bought 10 shares of stock in the company last week and immediately filed a derivative lawsuit, alleging self-dealing among the members of self-dealing.

At the hospital, Bobbie Sue was treated by Dr. Paul Nesmith, and he misdiagnosed her broken elbow, which caused it to swell up even further, and Bobbie Sue eventually went into shock, and then a coma. She spent two months in the hospital because of this.

Hector had no health insurance, so he was refused treatment. He went home and soaked his elbows and neck, and felt better after a few weeks.

THOROUGHLY DISCUSS THE RIGHTS AND LIABILITIES OF THE PARTIES, INCLUDING ANY APPLICABLE REMEDIES.

QUESTION THREE (25 points)

In 2018, Burt Backache incorporated Gorgeous Lawns, Inc. in Massachusetts. Its Articles of Incorporation states that it was organized for the sole purpose of providing residential and commercial landscaping services to its customers. It was authorized to issue 275,000 shares of stock. Burt issued 10,000 shares to himself and he was the

president, sole shareholder, sole director, and only employee (though Burt did sometimes hire his good buddy Wally to help when things got really busy. He paid Wally under the table). Later in 2018, he realized that he hated the bookkeeping and office work necessary to keep the business going, so he hired Katie Calamari, who recently graduated college with a degree in Office Management. He gave her a starting salary of \$60,000, a lofty title (Executive Vice President) and 100 shares of the authorized stock of the corporation. He also told her that he would give her another 100 shares of the company after she completed each subsequent year of work. Katie had the responsibility of making sure that the office was running smoothly while Burt was out making Massachusetts (and New Hampshire) lawns lush and green.

Starting in 2022, because business was dormant (like the lawns) in the winter months, he started offering snowplowing services to his customers. He hired a snowplow driver, Randy, who last year accidentally ran over a child sledding down the hill on his toboggan.

In 2023, Burt also brought his sister Jocelyn into the business. She could drive a plow, and she could mow a lawn, and she could even help with managing the office. She really is something else, that Jocelyn. Everything was going well....

Until one fateful day, a few months ago, when the following things happened.

First, some background. It was a warm morning, but that was to be expected in July. It had rained a little the night before, and the roads were still a little slick, and it was also very foggy. Burt was driving the company-owned SUV, and Katie and Jocelyn were passengers (neither one of them was a morning person, so to be driven to work was a real perk). Jocelyn told Burt that they needed ink jet cartridges for the office, so Burt pulled into a Home Goods, located in a shopping mall in Methuen, and Jocelyn hopped out to run into the store to get them. Jocelyn never made it into the store. He was hit and seriously injured by a teenager who had stolen a car from a hard working law professor named Josephine Dublin, (who left the keys in her car to run into Market Basket for some ice cold beer). The teenager ran away on foot. Seeing this, Burt jumped out of the car to assist his sister, and Katie followed. The SUV, left running and unattended, rolled right through the Home Goods plate glass window, injuring a customer, Becky Bumpkus. Jocelyn and Becky were taken to the hospital, in separate ambulances. Burt called for an Uber, which drove him and Katie to the office.

En route, Burt informed Katie that she had done a wonderful job training Jocelyn, such a good job, in fact, that her services were no longer needed. So he fired her.

It gets worse.

After they got to the office, Katie cleaned out her desk and left, but not before vowing to “see [Burt] in court.” Burt just smiled, and offered to buy back her stock (he had only issued her 300 shares at that point). Jocelyn was treated at the hospital for minor injuries, and when she went to work the next day and was told about Katie, Jocelyn smiled and

immediately moved into Katie's office, and ordered needed supplies, and also potted plants, some of which she had shipped to her apartment. She gave the company credit card number to vendors.

In September, the corporation totally botched a landscaping job at The Heights, a luxury condo development in Lawrence, Massachusetts. Apparently, an employee dug too deep a hole to plant a tree, and ruptured the water, sewer and gas lines, causing at least \$50,000 worth of damages. Luckily, nobody got hurt.

Two last things. Katie had a great idea for a side hustle, back before she met Burt, something to do with edible toys for dogs, and she needed investors. She got the 10 investors to each agree to pay \$1,000, and they would be limited partners in the Katie Loves Dogs Limited Partnership. Katie was to be the General Partner along with one of the investors, Contessa, who was to be both a Limited Partner and a General Partner, and who was responsible for doing all necessary filings with the Secretary of State. But Contessa never filed the necessary paperwork, and now the business owes about \$1,000,000 to creditors because a lot of dogs dies because the edible toys were toxic. The business has no money.

Katie never did get that additional stock.

THOROUGHLY DISCUSS ALL POSSIBLE CAUSES OF ACTION, INCLUDING ANY APPLICABLE REMEDIES.

Business Entities & Operations
Final Examination
Fall, 2022

Instructions:

This is a closed book, 3 hour examination, consisting of 3 questions. The first question is worth 30 points, and the second and third questions are each worth 25 points, for a total of 80 points. Your midterm counted for 20 points, which totals 100 points..

Good luck, and I hope you have a safe, happy, and virus-free holiday season.

QUESTION ONE (30 POINTS)

Sidney Singletary (barely) graduated from college in 2018, but he majored in Political Science, and thus could not find a job. Luckily for Sidney, his father, Raphael, was a well known real estate mogul who had many local business cronies and politicians he counted as very good friends. So Sidney decided to cash in on his father's connections and influence, and begin his own sole proprietorship business, called Sid's Plowing. Raphael gave him \$50,000 and introductions to numerous local cronies and pols, and Sidney began offering his services to area businesses and towns as a snow plow driver. Sidney orally promised his father that they would split all the profits until Raphael was repaid the initial \$50,000, and then it would be a 75% (to Sidney)/ 25% (to Raphael) split. Sidney also promised his father that he would make the business an LLP called Sid's LLP, so as to limit their liability. Sidney never did file the LLP paperwork.

Sidney parked the new snow plow he bought at a local parking facility, and signed the contract for storage as the Managing Partner of the LLP. Sidney's mother Irene, who had a college degree in accounting, took care of Sidney's books and records. She rented a virtual office in

Andover for \$50/mth to do the work, as she didn't like working from home. It was just a wide open space that had a few other desks (and other unrelated people). He paid her \$200 per week, under the table during the snowplowing season.

It didn't take long for Sidney to start turning a profit, as he won no-bid contracts for plowing services from many of the surrounding towns (he also plowed the town officials' homes, for free). He made enough money that he bought a second snow plow, and hired his girlfriend, Jasmine, as the other snow plow driver. He told her she could also be a partner in the LLP, and promised her 5% of the income they earned.

In 2021, Irene dropped one of the snowplow accounting ledgers on her virtual office mate Betty's foot, and broke three of Betty's toes.

In late 2021, after a long (and cold and snowy) night of plowing work, Sidney stopped off at a local bar and had a few (very dry) martinis. He struck up a conversation with Greg Bundy, who with his sister Kate (and 8 other members) owned a business called GK, LLC. Only Greg and Kate were active in the management of the LLC. GK, LLC provided automotive and truck repair and maintenance services and they agreed that Greg would sell him 4 new snow plow tires for \$800, which was quite a bargain. Greg said they could do it "off the books" so Kate wouldn't know. (Greg said that he would just write off the tires as lost or stolen.) Greg promised the tires to be of the highest quality. They drove over to Greg's business, and he personally put the new tires on. Sidney wrote him a check for \$800, which Greg pocketed.

On his way home, Sidney got into a little accident. He was busy texting his girlfriend when he crashed into a Hyundai driven by a little old lady named Myrtle, and she was seriously injured. She did manage to get the license plate number of the snowplow before lapsing into a coma. One of the snowplow tires, improperly mounted, rolled off and down the street, injuring a man named Ozark who was walking his dog. Ozark lapsed into a coma. The dog was injured, too. Sidney immediately put

a spare tire on the truck all by himself, and fled the scene. When he arrived home, he told his dad what happened, and they went the next morning to the law offices of Wellington Howell, III, Esquire, who immediately incorporated SidPlow, Inc. Wellington backdated all of the other corporate documents to two weeks prior.

SidPlow Inc. was thus incorporated, with 175,000 authorized shares. Sidney gave himself 4,000 of the shares, gave 650 to his father, gave 100 to Wellington, and gave 250 (which is 5% of the issued and outstanding shares, if that's important to you) to his girlfriend, Jasmine.

In early 2022, Sidney also brought his best friend Dan, a mechanic, and Dan's sister Gretchen into the business. Each was promised 100 shares of the company. Dan performed maintenance on all of the vehicles (which now numbered 6). SidPlow also hired 4 "seasonal" independent contractors (off the books, of course). Gretchen took over the administration of the payroll and other such mundane (but necessary) tasks that were needed, as Irene wanted out.

Recently, some other things happened.

(1) It was a very cold morning, and it had rained the night before. So, there was a fair amount of "black ice" on the roads. Jasmine was driving into work, but decided to stop at Dunkin' Donuts to treat herself to a mocha latte. She skidded on some ice (because one of the SidPlow drivers, Forrest, forgot to put sand down while plowing) and ran right over a high school honor student named Milhouse. Milhouse died. While waiting for the police and paramedics and ambulances to arrive, Jasmine went in to buy her coffee. As she was waiting in line, a customer named Chico, who had just purchased a cinnamon bun and a large decaf, slipped on a wet spot on the floor, spilling the coffee all over Jasmine, who suffered some minor burns on her neck and throat area. Chico injured his knee when he fell.

(2) Wellington had a successful general contractor client named HVAC, Inc. HVAC had worked on two big jobs recently, one for the Commonwealth of Massachusetts, and one for a for-profit hospital. It completed work on both projects in March of 2022, but had not been paid. In April of this year, HVAC contacted Wellington about these two delinquent accounts, and Wellington told them he would secure HVAC's rights by filing mechanic's liens on both projects. Wellington did so on August 20, 2022.

(3) When Sidney heard what happened with Jasmine, he immediately picked her up and brought her back to the office. She said it was not her fault, as it was freezing out. Sidney laughed, and said something about "freezing out" Jasmine, and then he fired her. As she sobbed in his office, Sidney offered to buy back her stock for \$10 per share. She immediately went to her own little cubicle, took her computer (which had customer lists on it) and left, and began competing against Sidney the very next day (after buying her own snowplow, of course). When Sidney found out Jasmine was competing against him, he changed Jasmine's pension from the company into his name.

At the hospital, Chico was treated by Dr. Spearing, who, because of a mix-up with the patient charts, performed an appendectomy on Chico. Chico is feeling better, but his knee still hurts.

(4) Sidney (or Irene, or Gretchen, or whomever was responsible for doing so), not only didn't keep proper corporate minutes over the last five years, they also forgot to renew the corporate liability insurance, which lapsed last month.

(5) Turns out Irene really didn't like her son, but really liked Jasmine, so Irene is now working for her.

(6) The local parking facility is owed \$5,000 for storage, and has filed suit, and has asked the court to pierce the "corporate veil" of SidPlow, and hold Sidney, Raphael, Wellington, and Jasmine personally liable.

(7) Kate decided that she wanted to move to Florida to play golf, so she asked all of the members of GK, LLC to allow her to sell her membership interest to her friend, Shaneeka. They all agreed, except for Greg. Kate told Greg that 90% of the members agreed, and that therefore he had no choice but to admit Shaneeka into the LLC.

(8) Miracles of miracles, both Ozark and Myrtle awoke from their comas last week.

(9) There are other lawsuits which are sure to be filed.

THOROUGHLY DISCUSS ALL POSSIBLE CAUSES OF ACTION, DEFENSES, AND REMEDIES.

QUESTION TWO (25 POINTS)

Dazzling Designs, Inc. a Massachusetts corporation (mainly doing business on Valentine's Day, July 4th, Halloween, and the Christmas season, supplying costumes and other paraphernalia) had for many years been a thriving business. It had been started in 2015 by three high school buddies named Shaun, Paolo, and Contessa, all of whom loved to dress up in outlandish and playful costumes (even when more formal attire was called for). Their Darth Vader costume was a big hit with Cosplay enthusiasts. I don't think Disney knows of the existence of Dazzling Designs.

Each of the three owners contributed \$10,000 to start the company, and each owned 1,000 shares of stock. They were the only shareholders, and all held executive positions within the company. Shaun was the Treasurer, and the other two were CEO and President, respectively. The three orally agreed that any shareholder who wanted to transfer stock had to first offer the stock to the corporation (the "right of first refusal").

They were all members of the Board of Directors. There were also two other members of the Board of Directors, the singers Cher and Lady Gaga. The latter two were on the Board because they often purchased costumes from the company (at half price), and having them on the Board gave the company some bragging rights (as you might expect). Neither Cher nor Lady Gaga owned any stock in the corporation, and, because of their busy schedules, never attended a single Board of Directors meeting.

Over the last two years, the following occurred:

1. In 2021, Paolo hired his son, Joe, as Executive Vice President of International Sales, at an annual salary of \$200,000, for a five year term. The contract was in writing, signed by Paolo as director. Joe had recently been released from prison, having done a long stretch for failing to register as a lobbyist for a foreign nation (Israel)..
2. Later in 2021, Cher quit the Board, saying she was unable to turn back time, and blamed her heavy travel schedule.
3. Even later in 2021, Lady Gaga slipped and fell while performing at the company's annual Christmas party (held in the main ballroom at the local Andover Hilton Hotel), which also included a silent auction to benefit a local animal shelter. Many townspeople attended the gala, and were encouraged to bring their pets and bid on the auction items. When Lady Gaga slipped and fell into the adoring crowd, she was immediately attacked, and severely injured, by the aforementioned pets. (This should come as no surprise, since her costume was made entirely of meat products.)
4. In early 2022, at a Director's meeting, the Directors voted to double Paolo and Shaun's salary, while voting to keep Contessa's the same. Contessa obviously was outvoted. She said something

about “hell freezing over” and stormed out of the meeting. But she continued to show up for work.

5. Also in 2022, one of the company’s most popular costumes, the “Fireman’s Special,” was sold to a customer, Don Darsden, who was scheduled to appear at an orphanage to talk about fire safety. While handling some lit matches at the appearance, Don managed somehow to light himself on fire, because the costume was not fireproof. He burned down the entire orphanage. There were no survivors, other than Don.
6. In mid-2022, Contessa was driving to lunch (and to buy some office supplies) when she got into a horrific car crash at a local intersection which was known for horrific car crashes because the town refused to pay for and install traffic lights there, despite numerous complaints over the years. She had the right of way, but was plowed into by a UPS truck driver named Bob Walsh. Walsh says his truck brakes failed.
7. Also in mid-2022, the company’s loading dock supervisor, James Cricket, who was explicitly forbidden from purchasing anything from vendors, purchased 12 storage cabinets and 200 packing boxes. He told the vendors to bill the company. The items have been unopened in the loading dock for the last few months. The bills have not been paid.
8. 6 weeks ago, Shaun realized he had a cash flow problem, because he had been running up huge gambling debts, even putting some of them on the company tab. To alleviate his own debts, Shaun sold 100 of his shares of stock to his brother Craig, a rich attorney.
9. Last week, Craig filed a shareholder derivative suit against Paolo, Cher, and Lady Gaga, and Contessa, alleging negligence, waste, fraud, and self-dealing.

10. Contessa filed a direct lawsuit against Shaun and Paolo last week.
11. There are other lawsuits which are sure to be filed.

THOROUGHLY DISCUSS ALL POSSIBLE CAUSES OF ACTION, DEFENSES, AND REMEDIES.

QUESTION THREE (25 POINTS)

In 2018, BeezosDevCorp., a Massachusetts corporation, was incorporated. It became a large business, with offices worldwide. The company had 2 divisions, one engaged in shipping and the other in publishing, and had on its Board of Directors six people, Carlo, Lorelei, Portia, Connor, Michelle Obama, and Cassius Moolah. Lorelei, Portia, and Connor each held the title of Executive Vice President. Carlo was president. Carlo and Connor were high school and college buddies, who married their high school and college sweethearts, Lorelei and Portia, respectively. Each of the four owned 25 shares of stock in the corporation (Obama and Moolah did not own any of the stock). The Articles of Organization had a provision requiring any shareholder who wanted to transfer stock within 2 years of the date of incorporation had to first offer the stock to the corporation (the “right of first refusal”).

Cassius Moolah was on the board because his employer, Fleet Bank, required that he be put on the board as a condition of granting a \$1,000,000 loan to the corporation. Carlo, Lorelei, Portia, and Connor orally agreed to act as sureties on the loan. Over the last three years, the following occurred:

1. In 2020, Carlo and Lorelei were divorced, and as part of the division of their marital assets, Lorelei gave Carlo 23 of her shares

of stock, and Carlo gave her the house in the Poconos. Soon thereafter, the shareholders had a vote, and they ousted Lorelei as director. The directors then had a meeting, and fired her.

2. In 2020, Connor hired his cousin, Greg, as marketing director of the firm, at an annual salary of \$150,000, for a ten year term. The contract was in writing, signed by Connor as director. Greg never made it out of college, by the way.
3. In 2020, Portia sold one share of stock to her friend Wilma. (Wilma hates Greg, because he jilted her at the altar a few years back, if that matters to you.)
4. In 2021, the shareholders voted to sell the entire shipping division to Majesticorp, which turned it into its own corporation, called ShipShape, Inc. The new shipping corporation, ShipShape, Inc., had some of the same members on its board as BeezosDevCorp. Lorelei was the only shareholder who voted against the sale.
5. In early 2022, the shareholders approved of a sale of all of the remaining assets of BeezosDevCorp to Majesticorp. This time, only Portia objected to the sale. BeezosdevCorp then filed Articles of Dissolution. Majesticorp took the assets and plowed them into a new corporation called Maj, Inc.
6. Also in early 2022, the captain of one of the ShipShape oil tankers ran aground off the coast of Maine, causing all sorts of environmental disasters. The captain was allegedly drunk at the time.
7. Before it dissolved, Beyonce was elected to the BeezosDevCorp Board of Directors.
8. Six weeks ago, the IRS completed an audit BeezosDevCorp, and discovered a deficiency of \$1,250,000 in unpaid withholding and

FICA taxes, going all the way back to 2019. The IRS has sued all of the Directors of BeezosDevCorp, and also wants to pierce the corporate veil and attach liability to Majesticorp.

9. Beachfront property owners in Maine are also suing Shipshape, and also want to pierce the corporate veil and attach liability to Majesticorp.

10. One last thing. Two weeks ago, attorney Bif Boffo bought 5 shares of Majesticorp, found out all that was going on, and filed a derivative lawsuit on behalf of the corporation, alleging that all of the Directors are interested, and therefore not independent, and therefore there was no need to make a demand on the Board of Directors before filing suit.

THOROUGHLY DISCUSS ALL POSSIBLE CAUSES OF ACTION, DEFENSES, AND REMEDIES.

Business Entities & Operations

Fall, 2023 Midterm

ID# _____

Martha Jones Movers, Inc. is a Massachusetts corporation. The Massachusetts Department of Revenue (DOR) is claiming that the corporation owes significant back taxes, plus penalties and interest, for its failure to withhold taxes on the corporation's local and long distance drivers/movers. The corporation has been in business for over 20 years, and has always treated its drivers as independent contractors, and Martha states that since they are not employees, they are responsible for paying their own income taxes. The 10 local drivers only drive for Martha's Movers, because she keeps them very busy. Last year, during a slowdown, she kept the drivers working, cleaning up around the premises, working on the moving vans, and doing small repairs like sealcoating the parking lot. They are very loyal to Martha.

The long distance (out of Massachusetts) drivers/movers are another matter. Their work is more sporadic. Sometimes they work for the company, but sometimes they drive for other moving companies, when Martha's company does not have enough work for them. They are paid on a per-mile basis. The trucks are owned by the corporation. The insurance is paid by the corporation. They are free, however, to pick up additional loads on the way to their ultimate destination (say, Florida) if there is room in the truck, and if time permits. Martha's company splits whatever fees they generate from these extra loads on a 50/50 basis. The drivers must check in 3 times a day, so the company can monitor their progress. When they do pick up additional loads, the drivers are free to hire (and pay) itinerant workers to help them load and unload furniture. Last week, one of the itinerant workers (Carl) slipped and fell while bringing a load of furniture to the truck. He is suing Martha, the corporation, and the driver of the truck, James.

Six months ago, the corporation's roof partially collapsed during a heavy snowstorm. The corporation immediately entered into a \$10,000 written contract with Ron's Roofers to fix the roof. They completed the work in 2 days, but Martha's Movers has not paid the bill, citing shoddy workmanship. Last week, Ron's Roofers threatened to slap a lien on the real estate unless the company pays the \$10,000 bill.

Five months ago, Martha brought in Gertie as an Office Manager. She orally promised her 5% of the stock in the corporation if things went well, as well as a 10% commission (on all revenues generated) if Gertie were able to somehow convince a local furniture company, Sheila's Furniture Leasing, Inc, to enter into a 10 year contract with Martha Jones Mover's, Inc. to deliver all of the furniture it sold to out-of-state customers. Things went well very quickly, and Martha did procure the contract (probably because Sheila was Gertie's niece). Realizing that this was way too much money to pay Gertie (plus the stock!) she fired Gertie.

4 months ago, one of Martha's drivers, Ken, was in a bad accident. He deviated from his assigned route to stop at a Dunkin' Donuts for coffee because he was getting sleepy, and crashed after he ran over a small child named Debby while exiting the parking lot. The repair shop sent Martha a bill for \$10,000, which Martha is disputing. The repair shop refuses to turn over the truck (and all of the furniture inside) unless Martha pays the bill.

3 months ago, Martha agreed in writing to pay \$30,000 (in 3 annual installments of \$10,000) to become a 5% partner in SwiftBlades, a company run by Lorenzo, which made disposable windshield wiper blades. Lorenzo told Martha that he would be the general partner and she would be the "silent" partner. Before paying in any money, disaster struck. One of its disposable wipers flew off a moving car, and struck and killed a man (named Boris) who was taking his dog out for a stroll.

2 months ago, Martha hired Wedding Spectacles, a partnership which had two general partners, Jake and Jill, to cater a wedding for 2 of her best employees. Pursuant to their oral agreement, Jake was responsible for all liabilities and losses, and he and Jill agreed to split any profits 50/50. One of the employees of Wedding Spectacles used old mayonnaise to make some finger food for the wedding guests. One guest, Celine, was rushed to the hospital after eating the bad food. She was in a coma for 2 weeks, but did survive.

One last thing. Unbeknownst to Jake, Jill had started a side business last month with Jasmine as her partner. They call it Bulbs Galore. The business of the side business is to take wedding pictures. Bulbs Galore was hired by Martha for the wedding. Gerald, a Bulbs Galore employee, put the wrong size bulb in the camera and it exploded, injuring one of the wedding guests, Zelda, who had to be rushed to the hospital.

THOROUGHLY DISCUSS THE RIGHTS AND DUTIES OF ALL PARTIES

Business Entities & Operations
Final Examination
Fall, 2023

Instructions:

This is a closed book, 3 hour examination, consisting of 3 questions, The first question is worth 30 points, and the second and third questions are each worth 25 points, for a total of 80 points. Your midterm was worth 20 points..

Good luck, and I hope you have a safe and happy holiday season.

QUESTION ONE

Rocko DaCradle graduated from college in 2019, but he majored in Sociology, so he had real trouble finding a good job. Luckily for Rocko, his father, Dilbert, was a well known golf course owner who had many local business cronies and politicians he counted as very good friends. So Rocko decided to cash in on his father's connections and influence, and begin his own sole proprietorship business, called Rocko's Residential Real Estate Services. Dilbert gave him \$50,000 and introductions to numerous local cronies and pals, and Rocko began offering his services to area businesses and towns as a landscaper and house painter and snow plow driver. Rocko orally promised his father that they would split all the profits until Dilbert was repaid the initial \$50,000, and then it would be a 75% (to Rocko)/ 25% (to Dilbert) split. Rocko also promised his father that he would make the business an LLP, so as to limit their liability. Rocko never did.

With the seed money, Rocko purchased a new dump truck/snow plow and stored it at a local garage, and signed the contract for storage as the Managing Partner of the LLP. Rocko's mother Bertha, who had a college degree in accounting, took care of Rocko's books and records. She rented an office in Andover to do the work, as she didn't like working from home. It was just a wide open space that had a few other desks (and other unrelated people). He paid her \$100 per week, under the table.

It didn't take long for Rocko to start turning a profit, as he won no-bid contracts for landscaping and plowing services from many of the surrounding towns (he also landscaped and plowed the town officials' homes, for free). He made enough money that he bought a second dump truck/snow plow, and hired his girlfriend, Colleen, as the other driver. He told her she could also be a partner in the LLP, and promised her 5% of the income they earned.

In early 2021, Bertha dropped one of the snowplow accounting ledgers on her office mate Betty's foot, and broke three of Betty's toes.

In 2021, after a long (and cold and snowy) night of plowing work, Rocko stopped off at a local bar and had a few (very dry) martinis. He struck up a conversation with Greg Bundy, who with his sister Kate (and 8 other members) owned a business called GK, LLC. Only Greg and Kate were active in the management of the LLC. GK, LLC provided automotive repair and

maintenance services and they agreed that Greg would sell him 4 new truck tires for \$1,200, which was quite a bargain. Greg said they could do it “off the books” so Kate wouldn’t know. (Greg said that he would just write off the tires as lost or stolen.) Greg promised the tires to be of the highest quality. They went over to Greg’s business, and he personally put the new tires on. Rocko wrote him a check for \$1,200, which Greg pocketed.

On his way home, Rocko got into a little accident. He was busy texting his girlfriend when he crashed into a Hyundai driven by a little old lady named Myrtle, and she was seriously injured. She did manage to get the license plate number of the truck before lapsing into a coma. One of the truck tires, improperly mounted, rolled off and down the street, injuring a man named Ozark who was walking his dog. Ozark lapsed into a coma. The dog was injured, too. Rocko immediately put on a spare tire on the truck all by himself, and fled the scene. When he arrived home, he told his dad what happened, and they went the next morning to the law offices of Wellington Howell, III, Esquire, who immediately incorporated RockoPlow, Inc. Wellington backdated all of the other corporate documents to two weeks prior.

RockoPlow Inc. was thus incorporated, with 5,000 authorized shares. Rocko gave himself 4,000 of the shares, gave 500 to his father, gave 100 to Wellington, and gave 250 to his girlfriend, Colleen.

Later in 2021, Rocko also brought his best friend Dan, a mechanic, and Dan’s sister Gretchen into the business. Each was promised 100 shares of the company. Dan performed maintenance on all of the vehicles (which now numbered 6). RockoPlow also hired 4 “seasonal” independent contractors (off the books, of course). Gretchen took over the administration of the payroll and other such mundane (but necessary) tasks that were needed, as Bertha wanted out.

Recently, some other things happened.

(1) It was a very cold morning, and it had rained the night before. So, there was a fair amount of “black ice” on the roads. Colleen was driving into work, but decided to stop at Dunk’s to treat herself to a mocha latte. She skidded on some ice (because one of the RockoPlow drivers, Forrest, forgot to put sand down while plowing) and ran right over a high school honor student named Milhouse. Milhouse died. While waiting for the police and paramedics and ambulances to arrive, Colleen went in to buy her coffee. As she was waiting in line, a customer named Chico, who had just purchased a cinnamon bun and a large decaf, slipped on a wet spot on the floor, spilling the coffee all over Colleen, who suffered some minor burns on her neck and throat area. Chico injured his knee when he fell.

(2) When Rocko heard what happened with Colleen, he immediately picked her up and brought her back to the office. She said it was not her fault, as it was freezing out. Rocko laughed, and said something about “freezing out” Colleen, and then he fired her. As she sobbed in his office, Rocko offered to buy back her stock for \$10 per share. She immediately went to her own little cubicle, took her computer (which had customer lists on it) and left, and began competing against Rocko the very next day. When Rocko found out Colleen was competing against him, he changed Colleen’s pension from the company into his name.

At the hospital, Chico was treated by Dr. Spearing, who, because of a mix-up with the patient charts, performed an appendectomy on Chico. Chico is feeling better, but his knee still hurts.

(4) Rocko (or Bertha, or Gretchen, or whomever was responsible for doing so), not only didn't keep proper corporate minutes over the last five years, they also forgot to renew the corporate liability insurance, which lapsed last month.

(5) Turns out Bertha really didn't like her son, but really liked Colleen, so Bertha is now working for her.

(6) The local garage is owed \$5,000 for storage, and has filed suit, and has asked the court to pierce the "corporate veil" of RockoPlow, and hold Rocko, Dilbert, Wellington, and Colleen personally liable.

(7) Kate decided that she wanted to move to Florida to play golf, so she asked all of the members of GK, LLC to allow her to sell her membership interest to her friend, Shaneeka. They all agreed, except for Greg. Kate told Greg that 90% of the members agreed, and that therefore he had no choice but to admit Shaneeka into the LLC.

(8) Miracles of miracles, both Ozark and Myrtle awoke from their comas last week.

(9) There are other lawsuits which are sure to be filed.

THOROUGHLY DISCUSS ALL POSSIBLE CAUSES OF ACTION, DEFENSES, AND REMEDIES.

QUESTION TWO

Dazzling Designs, a large, privately held Massachusetts corporation (mainly doing business on Valentine's Day, July 4th, Halloween, and the Christmas season, supplying costumes and other paraphernalia) had for many years been a thriving business. It had been started in 2015 by three high school buddies named Shaun, Paolo, and Contessa, all of whom loved to dress up in outlandish and playful costumes (even when more formal attire was called for).

Each of the three owners contributed \$10,000 to start the company, and each owned 1,000 shares of stock. They were the only shareholders, and all held executive positions within the company. Shaun was the Treasurer, and the other two were CEO and President, respectively. The three orally agreed that any shareholder who wanted to transfer stock had to first offer the stock to the corporation (the "right of first refusal").

They were all members of the Board of Directors. There were also two other members of the Board of Directors, the singers Cher and Lady Gaga. The latter two were on the Board because they often purchased costumes from the company (at half price), and having them on the Board gave the company some bragging rights (as you might expect). Neither Cher nor Lady Gaga

owned any stock in the corporation, and, because of their busy schedules, never attended a single Board of Directors meeting.

Over the last two years, the following occurred:

1. In 2021, Paolo hired his son, Joe, as Executive Vice President of International Sales, at an annual salary of \$200,000, for a five year term. The contract was in writing, signed by Paolo as director. Joe had recently been released from prison, having done a long stretch for embezzlement.
2. Later in 2021, Cher quit the Board, citing her heavy travel schedule.
3. Even later in 2021, Lady Gaga slipped and fell while performing at the company's annual Christmas party (held in the main ballroom at the local Hilton Hotel), which also included a silent auction to benefit a local animal shelter. Many townspeople attended the gala, and were encouraged to bring their pets and bid on the auction items. When Lady Gaga slipped and fell into the adoring crowd, she was immediately attacked, and severely injured, by the aforementioned pets. (This should come as no surprise, since her costume was made entirely of meat products.)
4. In early 2022, at a Director's meeting, the Directors voted to double Paolo and Shaun's salary, while voting to keep Contessa's the same. Contessa, obviously was outvoted. She said something about "hell freezing over" and stormed out of the meeting.
5. Also in 2022, one of the company's most popular costumes, the "Fireman's Special," was sold to a customer, Don Darsden, who was scheduled to appear at an orphanage to talk about fire safety. While handling some lit matches at the appearance, Don managed somehow to light himself on fire, because the costume was not fireproof. He burned down the entire orphanage. There were no survivors, other than Don.
6. In mid-2022, Contessa was driving to lunch (and to buy some office supplies) when she got into a horrific car crash at a local intersection which was known for horrific car crashes because the town refused to pay for and install traffic lights there, despite numerous complaints over the years. She had the right of way, but was plowed into by a UPS truck driver named Bob Walsh. Walsh says his truck brakes failed.
6. Also in mid-2022, the company's loading dock supervisor, James Cricket, who was explicitly forbidden from purchasing anything from vendors, purchased 12 storage cabinets and 200 packing boxes. He told the vendors to bill the company. The items have been unopened in the loading dock for the last few months. The bills have not been paid.
7. 6 weeks ago, Shaun realized he had a cash flow problem, because he had been running up huge gambling debts, even putting some of them on the company tab. To alleviate his own debts, Shaun sold 100 of his shares of stock to his brother Craig, a rich attorney.

8. Last week, Craig filed a shareholder derivative suit against Paolo, Cher, Lady Gaga, and Contessa.
8. Contessa filed a direct lawsuit against Shaun and Paolo last week.
9. There are other lawsuits which are sure to be filed.

THOROUGHLY DISCUSS ALL POSSIBLE CAUSES OF ACTION, DEFENSES, AND REMEDIES.

QUESTION THREE

In 2018, BeezosDevCorp., a Massachusetts corporation, was incorporated. It is now a large conglomerate with offices worldwide. The company is engaged mainly in shipping and publishing, and had on its Board of Directors six people, Carlo, Lorelei, Portia, Connor, Michelle Obama, and Cassius Moolah. Lorelei, Portia, and Connor each held the title of Executive Vice PreRockoent. Carlo was preRockoent. Carlo and Connor were high school and college buddies, who married their high school and college sweethearts, Lorelei and Portia, respectively. Each of the four owned 25 shares of stock in the corporation (Obama and Moolah did not own any of the stock). The Articles of Organization had a provision requiring any shareholder who wanted to transfer stock within 2 years of the date of incorporation had to first offer the stock to the corporation (the “right of first refusal”).

Cassius Moolah was on the board because his employer, Fleet Bank, required that he be put on the board as a condition of granting a \$1,000,000 loan to the corporation. Carlo, Lorelei, Portia, and Connor orally agreed to act as sureties on the loan. Over the last three years, the following occurred:

1. In 2020, Carlo and Lorelei were divorced, and as part of the division of their marital assets, Lorelei gave Carlo 23 of her shares of stock, and Carlo gave her the house in the Poconos. Soon thereafter, the shareholders had a vote, and they ousted Lorelei as director. The directors then had a meeting, and fired her.
2. In 2020, Connor hired his cousin, Greg, as marketing director of the firm, at an annual salary of \$150,000, for a ten year term. The contract was in writing, signed by Connor as director. Greg never made it out of college, by the way.
3. In 2020, Portia sold one share of stock to her friend Wilma. (Wilma hates Greg, because he jilted her at the altar a few years back, if that matters to you.)
4. In 2021, the shareholders voted to split off the shipping business into a separate corporation, whose stock was solely owned by BeezosDevCorp. The new shipping corporation, ShipShape, Inc., had many of the same (but not all, by any means, see

Lorelei, supra) members on its board as BeezosDevCorp. Lorelei was the only shareholder who voted against the split.

5. Later in 2021, the shareholders approved of a sale of all of the stock to Majesticorp. This time, only Portia objected to the sale.
6. Later that year, the captain of one of the ShipShape oil tankers ran aground off the coast of Maine, causing all sorts of environmental disasters. The captain was allegedly drunk at the time.
7. Six months ago, Beyonce was elected to the BeezosDevCorp Board of Directors.
8. In 2022, the IRS audited ShipShape, and discovered a deficiency of \$1,250,000 in unpaid withholding and FICA taxes, going all the way back to 2019. The IRS has sued Shipshape, and wants to pierce the corporate veil and attach liability to Majesticorp.
9. Beachfront property owners in Maine are also suing Shipshape, and also want to pierce the corporate veil and attach liability to Majesticorp.
10. Two weeks ago, attorney Bif Boffo bought 5 shares of BeezosDevCorp stock from his (now) girlfriend, Lorelei, found out all that was going on, and filed a derivative lawsuit on behalf of the corporation, alleging that all of the Directors are interested, and therefore not independent.
11. Wilma is also suing derivatively, alleging only that Connor breached his fiduciary when he hired his cousin Greg.

THOROUGHLY DISCUSS ALL POSSIBLE CAUSES OF ACTION, DEFENSES, AND REMEDIES.