

**BUSINESS LAW II**  
**Midterm – Part 2**

1. Alpha, Beta and Gamma, is a partnership formed under the laws of Maryland. Alpha, Beta and Gamma are equal partners. As a result of Beta's bankruptcy filing, Beta has assigned his interest in the Partnership to his creditors. Alpha and Gamma have remained in partnership together and continue to work with Landmark, a project that was only 50% complete when Beta filed for bankruptcy. Beta stopped working on the Landmark job and all other Partnership jobs the day he filed for bankruptcy. Since then, Beta has attempted to loot the Partnership of three of its oldest clients. Beta has already succeeded in getting Benchmark to terminate its contract with the Partnership and to work directly with Beta. (10)
  - a. **Beta's creditors have demanded Beta's 1/3 share from the Landmark job and all other jobs of the Partnership. Must the Partnership pay? Why or why not?**
  - b. **The Partnership has sued Beta for violating the Partnership agreement. Does the Partnership have any bona fide claims? Why or why not?**

2. Smith Services, Inc. a trucking business owned by Tony Smith, charged its fuel expenses to an account at Laker Express. When Smith Services was not paid on several contracts, it ceased doing business and was dissolved. Smith continued to provide trucking services, however, as a sole proprietor. Laker Express sought to recover Smith Services, Inc.'s unpaid fuel charges, which amounted to \$25,000, from Tony Smith. Tony argued that he was not personally liable for a corporate debt. (5)
  - a. **Should the Court pierce the corporate veil? Why or why not?**

3. Astro, Inc. has 500 shareholders. Its Board consists of five Directors. At a regular Board meeting, only three of the Directors were present. A vote was held to elect McCain as CEO of Astro. McCain is elected by a 2-1 vote. The minutes of the vote register that Directors Brown and Blue approved; Red cast the dissenting vote; and Black and White were absent. Later, an audit reveals that McCain is a convicted felon and has embezzled \$500,000 from Astro. (5)
  - a. **Which, if any, of its Directors may Astro hold personally liable? Why or why not?**

4. Ben owns 1,000 shares of Ajax, Inc. Comet, Inc. desires to acquire Ajax. Both Boards approve a merger. Ajax's shareholders have also approved the merger. Ajax calls for a shareholders' meeting to approve the merger. The day before the vote, Ajax trades at \$20/share. The day that Ajax's shareholders approve the merger, the stock price drops to \$10/share and remains unchanged for the next week. Ben voted against the merger. (10)
- a. **What rights, if any, does Ben have?**
  - b. **On the day after Ajax's shareholders vote to approve the merger, how much are Ben's shares worth?**

5. Pharma, Inc., a publicly traded corporation, is a pharmaceutical company which owns patents and medications. Its core brand is Oxy, which accounts for 70% of its sales. Pharma received reports that some consumers suffered immediate addiction after one treatment of Oxy. Four lawsuits were filed seeking damages from Oxy based on it being a defective product. In its public statements, related to revenues and product safety, Pharma did not reveal this information. The SEC filed a lawsuit against Pharma claiming that its statements were misleading because it did not disclose the information regarding the product liability cases. Pharma argued that the four pending suits were immaterial and did not require disclosure.(10)

a. **What is the legal standard that Pharma must satisfy regarding disclosure?**

b. **Did Pharma satisfy the legal standard for disclosure? Why or why not?**

c. **If the SEC is successful in its suit against Pharma, what liabilities could Pharma face?**