3)

A. Delta Loan

Formation Of Partnership

A partnership (pship) is created when two or more people run a business to operate economic benefit.

Here ABC Shoes (ABC) was crated as partnership because Ann (A) Bob (B) and Clarie (C) came together to open a retail shoe store to earn some profit.

Thus, ABC is partnership.

Implied Authority

A partner is also an agent of the pship. An agent may enter a contract on behalf of the principal and bind the principal if he has an authority to do so. Express authority is given by express language, it may be made orally or written. If there is no express authority agent may act as his own initiative with his reasonable understanding to achieve principal's purpose.

Here, A acted her own initiative because she signed the loan papers without asking to the pship. However, since the loan will benefit the pship she likely acted with implied authority.

Thus, there is implied authority.

Liability For Debt

Partners are equally and personally liable for the partnership's debts and torts.

Here, A,B and C are partners and benefited from the loan for marketing expenses.

Thus, they all will equally responsible.

B. Echo Loan

De Jure Corporation

A lawfully incorporated corporation is called de jure corporation.

Here, facts states that ABC Inc. is validly incorporated.

Board of Directors

Directors have fiduciary duties to share holders, there fore each director must act in reasonable manner when operating the business.

Here, A acted reasonably because she get the approval from B and C when she borrowed for business expansions.

Thus, there is no breach of fiduciary duty here.

Liability of Debts

Shareholders or directors are not personally liable for corporation's debts unless an exception applies.

Piercing the Corporate Veil

A lender may pierce the corporate veil to compensate the debt personally from shareholders. It is generally applied for closely held corporations with small number of shareholders.

Here, ABC Inc. is likely a closely held corporation since at the beginning there were 3 shareholders A,B, and C and also the fact states that there is low demand in the corporation.

Thus, Echo may pierce the veil.

Undercapitalization

If a corporation is incorporated without sufficient funds, it is called undercapitalized corporation.

Here, ABC likely did not have enough funds while incorporating because the fact that the corp ceased the business operations only in one year after and needed $40,000 for business expansion.

Thus, A, B, C may be personally liable for the debt.

C. The Big Shoe Contract

Business Judgement Rule

A director is protected for his decisions made in good faith and the best interest of the business. Good faith must be proved by the decision was fair to the corporation.

Here, A may argue that he was acting in good faith as a president because it was necessary for the expansion of the business to buy $50,000 inventory form BigShoe Co. However, B and C will argue that it was not fair to the corporation because the corporation already lent money from Echo Bank in the same month.

Thus, if the court finds good faith the corporation is liable for the debt. If the court does not find good faith the A will be personally liable for the debt.

D. Damages For Peter

<u>Vicarious Liability</u>

Corporation is liable for torts committed by people under their control. However intentional tort must be in scope of the business.

Here, Fred was acting in the scope of the business because he was driving to pick up inventory for the business and this is his regular duty since he occasionally done it before.

Thus ABC is vicariously liable for Peter's injuries.

Question #3 Final Word Count = 613

END OF EXAM