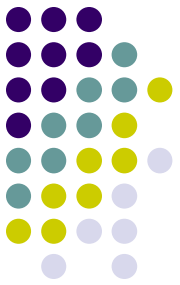


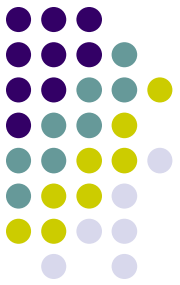
Sources of Business Law



- **Federal**

- SEC Acts
- SEC Regulations
- SEC administrative rulings
- (Securities and Exchanges Commission is a federal administrative agency formed to regulate securities trading)
- Federal case law

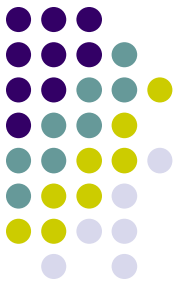
Sources of Business Law



- **State**

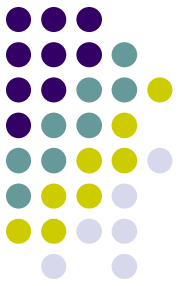
- All states have detailed state codes that deal with corporations and other business associations
- Examples of key state codes:
 - Delaware Corporate Code
 - New York Business Corporation Law
 - California Corporations code
 - State Case Law; **especially Delaware**

Sources of Business Law



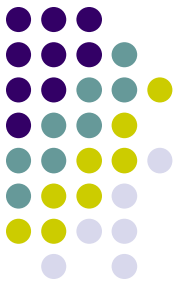
- **The Uniforms Acts**
 - Uniform Partnership Act (and Revised Uniform Partnership Act)
 - Uniform Limited Partnership Act
 - Uniform Limited Liability Company Act
 - Various other restatements and uniform acts

Open vs. Close Corporation



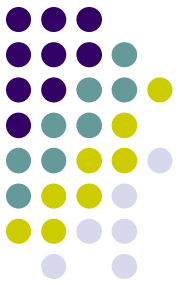
- **Definitions:**
- Close (or “Closed”) Corporation: Small group of people entirely own the corporation
- Open Corporation: The corporation is open to ownership by anyone and is owned by many people

Open vs. Close Corporation



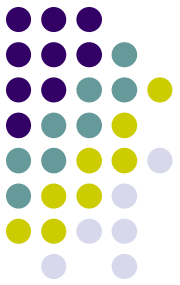
- **Advantages of each corporation type:**
 - **Close Corporation:**
 - controlled by only a few people
 - easier to make decisions
 - limited accountability to shareholders
 - not so heavily regulated
 - **Open Corporation:**
 - much easier to raise money
 - excellent liquidity (resale market) for the shares

Formation of a Corporation



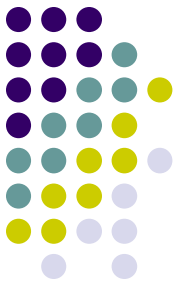
- Important Note: Corporations are “creatures” of STATE LAW, not federal law. While federal law may help govern how a corporation must be run, it’s the state law that must be looked to in determining its formation and existence.
- Formation requires 3 elements:
 - People
 - Paper
 - Acts

Formation: People

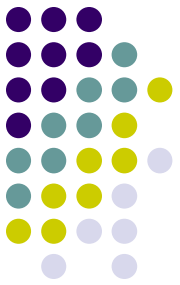


- The person who actually starts the corporation is called the “incorporator”.
- The incorporator need not own any part of the corporation or even be an officer of the corporation.
- Anybody that is of age (usually 18) and mentally competent can be an incorporator.
- Jurisdictions are split as to whether a business entity may be an incorporator.

People Relevant to a Corporation

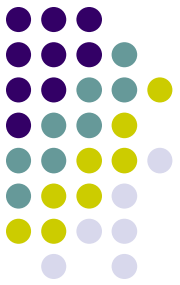


- Shareholders: owners of the company
- Directors: (i.e. Board of Directors) General managers of the corporation
- Officers: Managers of the day-to-day operations of the corporation



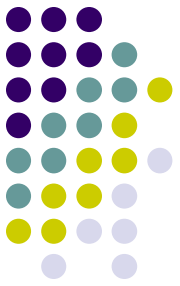
QUIZ TIME!

Formation: Paper



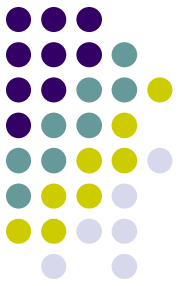
- Articles of Incorporation are required for every corporation to be formed
- The Articles are a contract between the shareholder, the incorporators and the state of incorporation
- **Articles must contain:**
 - Company's name and address of its place of business
 - The names and addresses of each incorporator
 - Purposes of the corporation (i.e., what types of businesses it will engage in)
 - Authorized stock issuance and capital structure of the corporation (including classes of stock, if applicable)
 - Duration of the Corporation's existence (if there is none, it's assumed to be perpetual)
 - Some states require corporations to designate an agent for service of process

Formation: Paper



- **Corporate Bylaws**
 - These are not required; but can be adopted at any time. They are done after the Articles are filed and they discuss a variety of issues, such as voting procedure, contents of the board of directors, etc.
 - Bylaws usually can only be added, amended or repealed by a shareholder vote; but they can also sometimes be done by the directors themselves
- The corporation must also issue stock certificates, where applicable
- There is also the requirement that an out of state company **register** before doing business in a state

Formation: Acts



- **Required for incorporation:**
 - Notarized signatures of all incorporators
 - Filing with the correct state organization and payment of required filing fees
- **Organizational Meeting**
 - After the filing of the Articles, the incorporators meet to:
 - Elect the initial directors
 - Adopt initial bylaws for the corporation