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| *Indicate whether the statement is true or false.* |

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| --- | --- | --- | --- | --- | --- | --- |
| 1. Any individual director can act as an agent to bind the corporation.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 2. The board of directors is the ultimate authority in every corporation.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 3. A corporation’s officers and other executive employees are hired by corporate shareholders.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 4. Many states permit a corporate board to have fewer than three directors.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 5. The initial board of directors of a corporation is normally elected at the first annual shareholders’ meeting by a majority vote of the shareholders.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 6. Most states do not allow directors to participate in board of directors’ meetings from remote locations.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 7. A director can be elected by the other members of the board.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 8. A new position on a board of directors can be created by an amendment to the articles of incorporation.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 9. The minimum number of members of a body of officials that must be present before business can validly be transacted is known as a quorum.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 10. Each director present at a board meeting has one vote.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 11. Publicly held corporations typically create committees of directors and delegate certain tasks to these committees.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 12. Shareholders appoint corporate officers and other executive employees.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 13. The ordinary rules of agency normally apply to the employment of corporate officers.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 14. Corporate officers can normally be removed by the board of directors without cause.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 15. Directors can delegate work to corporate officers and employees.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 16. A director or officer must exercise due care in performing their duties, including acting in good faith.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 17. Directors are not expected to act in accordance with their own knowledge and training, but to rely on information given to them by certain other persons.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 18. Directors must refrain from self-dealing.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 19. A director must always vote on a proposed transaction in which he or she has a personal interest.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 20. Corporate directors and officers are insurers of business success.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 21. As a general rule, shareholders make daily business decisions for a corporation.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 22. Shareholders are not personally liable for the debts of a corporation.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 23. For shareholders to act during a shareholders’ meeting, a quorum must be present.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 24. The articles of incorporation can exclude or limit shareholders’ voting rights.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 25. Cumulative voting refers to the accumulation of proposals presented annually for a shareholders’ vote.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 26. Shareholders can elect and remove the directors of the corporation.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 27. In some states, a director can be removed from a corporate board without cause.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 28. A majority vote of the shares represented at a shareholders’ meeting is usually required to pass resolutions.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 29. When shareholders want to change a company policy, they can put their idea up for a shareholder vote.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 30. With preemptive rights, shareholders preempt the decisions of directors and officers with respect to corporate policy.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 31. Since stock is intangible personal property, the ownership right to stock exists independently of a stock certificate.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 32. Dividends can be paid in cash or property, but not in stock in other corporations.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 33. Every shareholder is entitled to examine specified corporate records but only in person, not through an agent.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 34. When the corporation is harmed by the actions of a third party, the directors can bring a lawsuit in the name of the corporation against that party.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 35. A majority shareholder does *not* owe a fiduciary duty to minority shareholders under any circumstances.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| *Indicate the answer choice that best completes the statement or answers the question.* |

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| 36. Bret and Courtney form Delite Day Care, Inc. Ultimate responsibility for policy decisions necessary to the management of corporate affairs rests with Delite’s​   |  |  |  | | --- | --- | --- | |  | a. | ​board of directors. | |  | b. | ​incorporators. | |  | c. | ​officers. | |  | d. | ​shareholders. | |

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| 37. Roddy is elected as a director to the board of Salt n’ No-Salt Snax, Inc. He will most likely serve for a term of​   |  |  |  | | --- | --- | --- | |  | a. | ​about ten years. | |  | b. | ​less than one year. | |  | c. | ​life. | |  | d. | ​one year. | |

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| 38. Clive, Doris, and Elgar are the first directors on the board of Face x Face Corporation, a social media host. Subsequent directors are elected by a majority vote of Face x Face’s​   |  |  |  | | --- | --- | --- | |  | a. | ​users. | |  | b. | ​employees. | |  | c. | ​officers. | |  | d. | ​shareholders. | |

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| 39. Security Insurance, Inc. has a board of ten directors. Security’s bylaws do not state any quorum requirements. In most states, a quorum for Security’s board meetings would be​   |  |  |  | | --- | --- | --- | |  | a. | ​two directors. | |  | b. | ​six directors. | |  | c. | ​nine directors. | |  | d. | ​ten directors. | |

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| 40. Aviators Source Corporation makes and sells aircraft parts. In most states, the minimum number of directors that must be present before Aviators Source’s board could transact its business is​   |  |  |  | | --- | --- | --- | |  | a. | ​all of the directors authorized in the articles or bylaws. | |  | b. | ​a majority of the number authorized in the articles or bylaws. | |  | c. | ​any odd number. | |  | d. | ​one. | |

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| 41. RayAnn is a corporate officer for Shady’s Trees, Inc. As a corporate officer, RayAnn is ​   |  |  |  | | --- | --- | --- | |  | a. | ​the head of the board of directors. | |  | b. | ​involved in the day-to-day operations of the firm. | |  | c. | ​not involved in the day-to-day operations of the firm. | |  | d. | ​in charge of selecting members of the board of directors. | |

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| 42. The board of Management Consultants, Inc. (MCI), can delegate work to​   |  |  |  | | --- | --- | --- | |  | a. | ​MCI’s incorporators. | |  | b. | ​MCI’s officers. | |  | c. | ​MCI’s shareholders. | |  | d. | ​no one. | |

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| 43. Ernesto is a director of Fine Art Dealers, Inc. Ernesto is trained in art valuation. Fine Art makes several purchases in which it pays too much for artwork. Ernesto approves all the transactions without reading the details. Ernesto is most likely liable for breach of​   |  |  |  | | --- | --- | --- | |  | a. | ​the duty of care. | |  | b. | ​none of the choices. | |  | c. | ​the duty of loyalty. | |  | d. | ​the business judgment rule. | |

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| 44. Coast-to-Coast Distribution, Inc., is a national trucking company. Like most corporations, Coast-to-Coast’s employees include its​   |  |  |  | | --- | --- | --- | |  | a. | ​board of directors. | |  | b. | ​incorporators. | |  | c. | ​officers. | |  | d. | ​shareholders. | |

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| 45. Karen and Laura are officers of Marketing Wizards Inc. As corporate officers, the rights of Karen and Laura are   |  |  |  | | --- | --- | --- | |  | a. | determined by their employment contracts. | |  | b. | specified in state corporation statutes. | |  | c. | the same as those of the directors. | |  | d. | the same as those of the shareholders. | |

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| 46. Rafi, a director of Super Service Station Corporation, does not attend a board meeting for three years. During that time, Todd, Super’s president, makes improper loans that cost the company $1 million. Rafi is most likely   |  |  |  | | --- | --- | --- | |  | a. | liable for negligence. | |  | b. | liable for violation of the business judgment rule. | |  | c. | not liable because missing meetings is an honest mistake. | |  | d. | not liable because missing meetings is only poor judgment. | |

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| 47. Holly is a director of International Spices, Inc. As a director, with respect to the corporation, Holly is   |  |  |  | | --- | --- | --- | |  | a. | a fiduciary. | |  | b. | an incorporator. | |  | c. | an officer. | |  | d. | an employee. | |

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| 48. Nora is a director of Outback Outfitters, Inc. Under the standard of due care owed by directors of a corporation, Nora’s decisions must be informed and   |  |  |  | | --- | --- | --- | |  | a. | reasonable. | |  | b. | unquestionable. | |  | c. | indefensible. | |  | d. | perfect. | |

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| 49. Denise, Ervin, and Flem occupy the positions of directors on the board of Gallery Home Furnishings Inc. As directors, they may NOT   |  |  |  | | --- | --- | --- | |  | a. | ​authorize major corporate policy decisions. | |  | b. | ​decide to issue stock and bonds, and declare dividends. | |  | c. | ​select and remove corporate officers. | |  | d. | ​subordinate the corporation’s welfare to their personal interests. | |

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| 50. Carlo is a director of Desserts Italiano, Inc. Carlo opposes a tender offer that is in the company’s best interest because its acceptance would cost his position as a director. Carlo is most likely liable for a breach of   |  |  |  | | --- | --- | --- | |  | a. | none of the choices. | |  | b. | the business judgment rule. | |  | c. | the duty of care. | |  | d. | the duty of loyalty. | |

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| 51. Emma is a director of Fab Styles Corporation. Without informing Fab, Emma goes into business with GR8 Trends, Inc., in competition with Fab. Emma is li-able for breach of   |  |  |  | | --- | --- | --- | |  | a. | none of the choices. | |  | b. | the business judgment rule. | |  | c. | the duty of care. | |  | d. | the duty of loyalty. | |

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| 52. Lewis is a director of Mines & Refineries, Inc. Using information that is not available to the public, Lewis makes a profit trading in Mines & Refineries securities. Lewis is most likely liable for breach of   |  |  |  | | --- | --- | --- | |  | a. | none of the choices. | |  | b. | the business judgment rule. | |  | c. | the duty of loyalty. | |  | d. | the duty of care. | |

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| 53. Shannon is an officer for Turista Shirts Corporation. Due to a bad business decision on Shannon’s part, the company’s sales decrease. Shannon is most likely liable for breach of   |  |  |  | | --- | --- | --- | |  | a. | the business judgment rule. | |  | b. | the duty of care. | |  | c. | the duty of loyalty. | |  | d. | none of the choices. | |

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| 54. Rosa and Sean are shareholders of T-Rex Tacos, Inc. Rosa’s written authorization to Sean to vote Rosa’s shares at a shareholders’ meeting is​   |  |  |  | | --- | --- | --- | |  | a. | ​a violation of the duty of care. | |  | b. | ​a preemptive right. | |  | c. | ​a proxy. | |  | d. | ​a quorum. | |

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| 55. Farrah and Grant are shareholders of Hong Kong Restaurants, Inc. As shareholders, they must approve   |  |  |  | | --- | --- | --- | |  | a. | conducting a merger. | |  | b. | deciding to pursue new business opportunities. | |  | c. | none of the choices. | |  | d. | negotiating a contract between management and labor. | |

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| 56. Corporate business matters are presented at a shareholders’ meeting of Hollywood Lights, Inc., and other corporations in the form of   |  |  |  | | --- | --- | --- | |  | a. | resolutions. | |  | b. | proxies. | |  | c. | articles of incorporation. | |  | d. | bylaws. | |

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| 57. Thor Power Products Corporation permits its directors to be elected by cumulative voting. This  inspection rights.   |  |  |  | | --- | --- | --- | |  | a. | allows minority shareholders to be represented on the board. | |  | b. | assures directors that they will be selected by their peers. | |  | c. | guarantees Thor’s executive officers of the final choice. | |  | d. | ensures against persons who may “cloud” the corporate direction. | |

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| 58. Mieko is a shareholder of Natural Gas, Inc. Natural Gas uses cumulative voting to elect directors. This means that the number of Mieko’s votes is determined by the number of   |  |  |  | | --- | --- | --- | |  | a. | years that Mieko has been a shareholder. | |  | b. | members of the board to be elected multiplied by the total number of voting shares that Mieko holds. | |  | c. | shareholders present at the shareholders’ meeting. | |  | d. | shareholders’ meetings that Mieko has attended. | |

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| 59. Rihanna owns one share of stock in SportBoards Corporation, as evidenced by a stock certificate. Rihanna loses the certificate. Her ownership of the stock is   |  |  |  | | --- | --- | --- | |  | a. | forfeited immediately. | |  | b. | forfeited within ten days of a third party’s claim to ownership. | |  | c. | forfeited within thirty days if she cannot find the certificate. | |  | d. | not affected. | |

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| 60. Pat owns one share of stock in Quik Smoothies Corporation, as evidenced by a stock certificate. Because stock is intangible personal property, Pat’s ownership of the stock   |  |  |  | | --- | --- | --- | |  | a. | exists independently of the stock certificate. | |  | b. | cannot exist without a *tangible* stock certificate. | |  | c. | cannot exist without the *original* stock certificate. | |  | d. | ​cannot be transferred without the stock certificate. | |

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| 61. Gayle is a shareholder of Harbor Bay Equipment Inc. with preemptive rights. With these rights, Gayle can   |  |  |  | | --- | --- | --- | |  | a. | buy a prorated share of a new issue of stock before other buyers. | |  | b. | choose to have Matchless act exclusively in a certain area. | |  | c. | “preempt” managerial decisions that affect shareholders. | |  | d. | ​sell a prorated share of a new issue of stock before other sellers.​ | |

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| 62. Ida, Jerzy, and Kit are the directors of Liberty Convenience Stores, Inc. Liberty has nine officers and forty-six shareholders. Dividends are ordered by the firm’s   |  |  |  | | --- | --- | --- | |  | a. | board of directors. | |  | b. | minority shareholders. | |  | c. | officers. | |  | d. | ​majority shareholders. | |

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| 63. Generally, Office Paper Products Company and other corporations can pay dividends if   |  |  |  | | --- | --- | --- | |  | a. | the corporation can continue to pay its debts as they come due. | |  | b. | the amount of the dividends exceed the corporation’s net worth. | |  | c. | the shareholders approve. | |  | d. | the corporation’s assets equal its total liabilities. | |

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| 64. Kelly transfers shares of stock that she owns in Laundry Management Company to Max. A shareholders’ meeting takes place before Max’s ownership is entered in Laundry’s stock book. A vote at the meeting can be cast by   |  |  |  | | --- | --- | --- | |  | a. | Kelly and Max. | |  | b. | Kelly only. | |  | c. | Max only. | |  | d. | neither Kelly nor Max. | |

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| 65. Ally is a shareholder of Bank of Trade Inc. As a shareholder, Ally does *not* have  inspection rights.   |  |  |  | | --- | --- | --- | |  | a. | a right to compensation. | |  | b. | dividend rights. | |  | c. | inspection rights. | |  | d. | preemptive rights. | |

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| 66. Bea is a shareholder of Chocolate Confections Corporation. Bea has the right to inspect corporate books and records  inspection rights.   |  |  |  | | --- | --- | --- | |  | a. | only if she is a director. | |  | b. | without restrictions. | |  | c. | with some restrictions. | |  | d. | under no circumstances. | |

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| Darius is a shareholder of Energy Renewable, Inc. When the directors fail to undertake an action to redress a wrong suffered by the corporation, Darius files a suit on the firm’s behalf.  ​ |

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| 67. Darius’s suit is a shareholder’s​   |  |  |  | | --- | --- | --- | |  | a. | ​reimbursement suit. | |  | b. | ​derivative suit. | |  | c. | ​business judgment rule suit. | |  | d. | ​preemptive suit. | |

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| 68. Any damages recovered by Darius’s suit will normally go to   |  |  |  | | --- | --- | --- | |  | a. | ​Darius. | |  | b. | Energy Renewable. | |  | c. | Energy Renewable’s directors. | |  | d. | Energy Renewable’s shareholders. | |

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| 69. Noel is a majority shareholder of Oil Change Shops Inc. Using this control, Noel excludes Polly, a minority shareholder, from benefits of participating in the firm. Polly can   |  |  |  | | --- | --- | --- | |  | a. | assert the business judgment rule. | |  | b. | bring a suit for damages. | |  | c. | exercise *de facto* control. | |  | d. | force a cumulative vote. | |

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| 70. Brandi is a shareholder of Cloud Servers & Routers Inc. Brandi will be deemed to have a fiduciary duty to Cloud and its minority shareholders if she has a sufficient number of shares to   |  |  |  | | --- | --- | --- | |  | a. | assert the business judgment rule. | |  | b. | bring a shareholder’s derivative suit. | |  | c. | exercise *de facto* control. | |  | d. | participate in a cumulative vote. | |

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| 71. Donatello is a director and officer of Enzio’s Pizza Corporation. Donatello selects an ad campaign that consumers find offensive—a marketing decision that results in a dramatic decrease in profits for the firm and its shareholders. The shareholders accuse Donatello of breaching his fiduciary duty to the corporation. What is Donatello’s best defense against this accusation? Later, a resolution comes before Enzio’s board to expand its menu to compete with Fabio’s Pasta Palace Restaurants Inc. Donatello is a director and shareholder of Fabio’s. What is Donatello’s responsibility in this situation?​ |

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| 72. ​Nelson is Organic Coffee Company’s majority shareholder. Nelson decides to sell his Organic Coffee stock. The sale will be an effective transfer of the control of the company. Does Nelson owe a duty to Organic Coffee or its minority shareholders in this situation? |

**Answer Key**

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| 1. False |

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| 2. True |

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| 3. False |

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| 4. True |

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| 5. False |

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| 6. False |

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| 7. True |

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| 8. True |

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| 9. True |

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| 10. True |

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| 11. True |

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| 12. False |

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| 13. True |

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| 14. True |

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| 15. True |

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| 16. True |

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| 17. False |

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| 18. True |

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| 19. False |

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| 20. False |

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| 21. False |

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| 22. True |

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| 23. True |

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| 24. True |

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| 25. False |

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| 26. True |

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| 27. True |

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| 28. True |

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| 29. True |

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| 30. False |

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| 31. True |

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| 32. False |

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| 33. False |

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| 34. True |

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| 35. False |

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| 36. a |

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| 37. d |

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| 38. d |

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| 39. b |

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| 40. b |

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| 41. b |

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| 42. b |

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| 43. a |

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| 44. c |

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| 45. a |

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| 46. a |

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| 47. a |

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| 48. a |

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| 49. d |

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| 50. d |

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| 51. d |

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| 52. c |

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| 53. d |

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| 54. c |

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| 55. a |

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| 56. a |

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| 57. a |

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| 58. b |

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| 59. d |

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| 60. a |

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| 61. a |

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| 62. a |

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| 63. a |

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| 64. b |

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| 65. a |

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| 66. c |

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| 67. b |

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| 68. b |

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| 69. b |

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| 70. c |

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| 71. The best defense in this context is the business judgment rule. As long as a director or officer does what is necessary to be informed, and acts in good faith, in what he or she considers to be the best interests of the corporation, and with the care that an ordinarily prudent person would use in similar circumstances, he or she is not liable simply because a decision has a negative result.  As for the resolution involving a different corporation, a director cannot support a business that competes directly with a corporation on the board of which the director sits. The director’s fiduciary duty requires him to fully disclose the conflict of interest. Most likely, the director in these circumstances will have to resign from one of the boards.​ |

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| 72. Yes. A single shareholder—or a few shareholders acting together—who owns enough stock to exercise *de facto* control over a corporation owes the corporation and its minority shareholders a fiduciary duty when transferring those shares. A breach of this fiduciary duty by those who control a close corporation can constitute what is known as oppressive conduct. A breach of this duty may also occur if a majority shareholder attempts to exclude minority shareholders from receiving certain benefits from participating in the firm. Thus, for example, refusing to perform a valuation of the company, or denying the minority shareholders access to corporate information to which they would otherwise entitled, would constitute a violation of this duty.​ |