

CORPORATIONS AND OTHER BUSINESS ORGANIZATIONS

Statutes, Rules, Materials, and Forms

2001 Edition

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2001 Edition

Selected and edited by

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PREFACE

This Supplement is designed to provide students with the essential statutory provisions, rules, materials and forms needed in courses in Corporations and Business Associations, and to give students a hand's-on grasp of the tools with which the profession works in these areas.

This Supplement includes state and federal statutes and rules; extensive excerpts from Restatement (Second) of Agency; the virtually complete text of the ALI's Principles of Corporate Governance together with selected Comments; selected forms; and other materials.

In general, the federal materials have been edited much more heavily than the other materials, because much of the federal material is more relevant to courses in Securities Regulation than to courses in Corporations and Business Associations. The aim of the editing of the federal materials has been to preserve the substance and the flow of the material, but to winnow out details that are unnecessary for the study of corporation law.

The following conventions have been used in the preparation of this Supplement:

(1) Omissions within a statutory section, rule, form, official comment, instruction, note, or other material are indicated by ellipses (. . .). The omission of an entire statutory section, rule, form, official comment, instruction, or note is not so indicated. However, in the case of the Delaware statute, the Revised Model Business Corporation Act, the Uniform Partnership Act, the Revised Uniform Partnership Act, the Uniform Limited Partnership Act, the Securities Act, and the Securities Exchange Act, the Delaware Limited Liability Company Act, and the Uniform Limited Liability Company Act, the omission of an entire section is indicated in the Table of Contents by an asterisk following the title of the omitted section.

(2) Editorial insertions in the text are indicated by brackets. In some cases, an official text itself includes bracketed material, but the context usually makes clear whether bracketed material consists of editorial insertions or original text.

(3) Sections of the securities acts have been numbered serially, beginning with Section 1, rather than with the number-and-letter combinations used in the United States Code. Rules and forms under those acts have been numbered without the prefatory Part numbers that appear in the Code of Federal Regulations.

I thank the authors, publishers and copyrightholders who permitted me to reprint all or portions of the following works, including:

PREFACE

American Bar Association, Section of Business Law, Committee on Corporate Laws, Revised Model Business Corporation Act.

American Bar Foundation, Commentaries on Model Debenture and Indenture Provisions (1971).

American Law Institute, Restatement (Second) of Agency, Restatement (Third) of Agency, and Principles of Corporate Governance: Analysis and Recommendations.

Aspen Law & Business, Model Business Corporation Act Annotated.

R. F. Balotti and J. Finkelstein, The Delaware Law of Corporations and Business Organizations (3d ed. 1998).

Robert R. Keatinge and Holland & Hart, Form of Operating Agreement of Limited Liability Company.

National Conference of Commissioners on Uniform State Laws, Uniform Limited Liability Company Act (1995), Uniform Partnership Act, Revised Uniform Limited Partnership Act (1995), and Revised Uniform Limited Partnership Act.

Wachtell, Lipton, Rosen & Katz, Form of Preferred Shareholder Rights Agreement.

MELVIN A. EISENBERG

May, 2001

CORPORATIONS AND OTHER BUSINESS ORGANIZATIONS

Statutes, Rules, Materials, and Forms

TABLE OF CONTENTS

	Page
Restatement (Second) of Agency (Selected Sections)-----	1
Restatement (Third) of Agency, Tent. Draft No. 2-----	41
Uniform Partnership Act-----	71
Revised Uniform Partnership Act (1997) -----	90
Form of Partnership Agreement-----	182
Revised Uniform Limited Partnership Act (1976) With 1985 Amend- ments -----	202
Proposed Revision of Uniform Limited Partnership Act (Re-RULPA) -----	222
Texas Limited Liability Partnership Act-----	283
Delaware Limited Liability Company Act-----	287
Uniform Limited Liability Company Act-----	340
Form of Limited Liability Company Operating Agreement -----	415
Internal Revenue Code 26 U.S.C. § 7701 and Regulations Thereunder -----	463
Delaware General Corporation Law -----	467
Revised Model Business Corporation Act -----	579
Model Statutory Close Corporation Supplement -----	871
California Corporations Code (Selected Provisions) -----	892
Connecticut General Statutes Ann. § 33-756-----	964
Ind. Code Ann. §§ 23-1-35-1, 23-1-42-1 through 23-1-42-11 -----	966
Maryland Ann. Code Corporations and Associations, Title 4 -----	974
Mich. Comp. Laws § 450.1489 -----	983
Minnesota Stats. Ann. § 302A.751 -----	984
New York Business Corporation Law (Selected Provisions) -----	987
Pennsylvania Consol.Stats.Ann., Title 15 (Excerpts) -----	1065
Virginia Corporations Code § 13.1-690 -----	1088
New York Professional Service Corporation Law-----	1089
Uniform Commercial Code § 8-204 -----	1097
Federal Rules of Civil Procedure Rules 11, 23, 23.1 -----	1099
Uniform Fraudulent Transfer Act (Selected Provisions)-----	1104
Bankruptcy Act, 11 U.S.C.A. §§ 101(31), 548(a) -----	1108
Federal Mail Fraud Act 18 U.S.C. §§ 1341 et seq. -----	1109
Internal Revenue Code § 162(m)-----	1110
Regulations Under Internal Revenue Code § 162(m)-----	1112
New York Stock Exchange Listed Company Manual-----	1119
American Stock Exchange Company Guide -----	1135
ABA Model Rules of Professional Conduct, Rule 1.13-----	1137

TABLE OF CONTENTS

	Page
ALI, Principles of Corporate Governance: Analysis and Recommendations (1994) -----	1139
OECD Principles of Corporate Governance -----	1211
Form of Certificate of Incorporation-----	1236
Form of By-Laws-----	1238
Form of Minutes of Organization Meeting -----	1248
Form of Stock Certificate -----	1253
Form of Proxy -----	1255
Form of Proxy Statement -----	1256
American Bar Foundation, Commentaries on Debentures 410-411--	1288
Wachtell, Lipton, Rosen & Katz, Preferred Shareholder Rights Plan--	1293
Chubb Executive Protection Policy -----	1318
Securities Act of 1933 -----	1325
Rules and Forms Under the Securities Act of 1933 (Selected Provisions) -----	1369
Regulation S-B—Integrated Disclosure System for Small Business Issuers (Excerpts)-----	1450
Regulation S-K—Standard Instructions for Filing Forms Under Securities Act of 1933 (and) Securities Exchange Act of 1934 (Selected Provisions) -----	1455
Regulation M-A -----	1491
Securities Exchange Act of 1934-----	1506
Rules and Forms Under the Securities Exchange Act of 1934 (Selected Provisions) -----	1580
Regulation FD -----	1713
Racketeer Influenced and Corrupt Organizations (RICO) (Excerpts)	1716
Hart-Scott-Rodino Antitrust Improvements Act-----	1719
Regulations Under the Hart-Scott-Rodino Antitrust Improvements Act -----	1723

RESTATEMENT (SECOND) OF AGENCY

(Selected Sections)

Chapter 1

INTRODUCTORY MATTERS

TOPIC 1. DEFINITIONS

Section		Page
1.	Agency; principal; agent	6
2.	Master; servant; independent contractor	6
3.	General agent; special agent	7
4.	Disclosed principal; partially disclosed principal; undisclosed principal	7
7.	Authority	8
8.	Apparent authority	8
8A.	Inherent agency power	8
8B.	Estoppel; change of position	8

TOPIC 3. ESSENTIAL CHARACTERISTICS OF RELATION

13.	Agent as a fiduciary	9
14.	Control by principal	9

TOPIC 4. AGENCY DISTINGUISHED FROM OTHER RELATIONS

14H.	Agents or holders of a power given for their benefit ..	9
14O.	Security holder becoming a principal	9

Chapter 2

CREATION OF RELATION

TOPIC 1. MUTUAL CONSENT AND CONSIDERATION

15.	Manifestations of consent	9
-----	---------------------------------	---

TOPIC 3. CAPACITY OF PARTIES TO RELATION

23.	Agent having interests adverse to principal	9
-----	---	---

Chapter 3

CREATION AND INTERPRETATION OF AUTHORITY AND APPARENT AUTHORITY

TOPIC 1. METHODS OF MANIFESTING CONSENT

26.	Creation of authority; general rule	10
27.	Creation of apparent authority; general rule	10

RESTATEMENT (SECOND) OF AGENCY

**TOPIC 2. INTERPRETATION OF AUTHORITY
AND APPARENT AUTHORITY**

TITLE A. AUTHORITY

Section		Page
32.	Applicability of rules for interpretation of agreements	10
33.	General principle of interpretation	10
35.	When incidental authority is inferred	12
39.	Inference that agent is to act only for principal's benefit	12
43.	Acquiescence by principal in agent's conduct	12

TITLE B. APPARENT AUTHORITY

49.	Interpretation of apparent authority compared with interpretation of authority	13
-----	--	----

Chapter 4

RATIFICATION

TOPIC 1. DEFINITIONS

82.	Ratification	13
83.	Affirmance	14

TOPIC 2. WHEN AFFIRMANCE RESULTS IN RATIFICATION

84.	What acts can be ratified	14
85.	Purporting to act as agent as a requisite for ratification	15
87.	Who can affirm	15
88.	Affirmance after withdrawal of other party or other termination of original transaction	15
89.	Affirmance after change of circumstances	15
90.	Affirmance after rights have crystallized	15

TOPIC 3. WHAT CONSTITUTES AFFIRMANCE

93.	Methods and formalities of affirmance	15
94.	Failure to act as affirmance	16
97.	Bringing suit or basing defense as affirmance	16
98.	Receipt of benefits as affirmance	16
99.	Retention of benefits as affirmance	16

TOPIC 4. LIABILITIES

100.	Effect of ratification; in general	16
100A.	Relation back in time and place	17

Chapter 5

TERMINATION OF AGENCY POWERS

TOPIC 1. TERMINATION OF AUTHORITY

**TITLE B. TERMINATION BY MUTUAL CONSENT,
REVOCATION, OR RENUNCIATION**

118.	Revocation or renunciation	17
------	----------------------------------	----

TOPIC 5. TERMINATION OF POWERS GIVEN AS SECURITY

Section	Page
138. Definition	18
139. Termination of powers given as security	18

Chapter 6

**LIABILITY OF PRINCIPAL TO THIRD PERSONS;
CONTRACTS AND CONVEYANCES**

TOPIC 1. GENERAL PRINCIPLES

140. Liability based upon agency principles	19
143. Effect of ratification	19

**TOPIC 2. DISCLOSED OR PARTIALLY
DISCLOSED PRINCIPAL**

TITLE A. CREATION OF LIABILITY BY AUTHORIZED ACTS

144. General rule	19
-------------------------	----

TITLE C. CREATION OF LIABILITY BY UNAUTHORIZED ACTS

159. Apparent authority	20
160. Violation of secret instructions	20
161. Unauthorized acts of general agent	20
161A. Unauthorized acts of special agents	20

**TITLE D. DEFENSES AND LIABILITY AFFECTED
BY SUBSEQUENT EVENTS**

179. Rights between third person and agent	21
180. Defenses of principal—In general	21

TOPIC 3. UNDISCLOSED PRINCIPAL

TITLE A. CREATION OF LIABILITY BY AUTHORIZED ACTS

186. General rule	21
-------------------------	----

TITLE B. CREATION OF LIABILITY BY UNAUTHORIZED ACTS

194. Acts of general agents	21
195. Acts of manager appearing to be owner	21
195A. Unauthorized acts of special agents	21

**TITLE C. DEFENSES AND LIABILITY AFFECTED
BY SUBSEQUENT EVENTS**

203. Defenses of undisclosed principal—In general	22
205. Power of agent to modify contract before disclosure of principal	22

RESTATEMENT (SECOND) OF AGENCY

Chapter 7

LIABILITY OF PRINCIPAL TO THIRD PERSON; TORTS

**TOPIC 2. LIABILITY FOR AUTHORIZED CONDUCT
OR CONDUCT INCIDENTAL THERETO**

TITLE B. TORTS OF SERVANTS

Section		Page
219.	When master is liable for torts of his servants	22
	WHO IS A SERVANT	
220.	Definition of servant	23
	SCOPE OF EMPLOYMENT	
228.	General statement	23
229.	Kind of conduct within scope of employment	24
230.	Forbidden acts	24
231.	Criminal or tortious acts	24
	TITLE C. AGENTS' TORTS—LIABILITY NOT DEPENDENT UPON RELATION OF MASTER AND SERVANT	
	IN GENERAL	
250.	Non-liability for physical harm by non-servant agents	25

Chapter 10

LIABILITY OF THIRD PERSON TO PRINCIPAL

TOPIC 1. CONTRACTS; DISCLOSED AGENCY

292.	General rule	25
298.	Defenses of other party	25
299.	Rights between other party and agent	25

TOPIC 2. CONTRACTS; UNDISCLOSED AGENCY

302.	General rule	25
303.	Principal excluded from transaction	26
306.	Rights between other party and agent	26
308.	Defenses of other party	26

TOPIC 5. EFFECT OF RATIFICATION

319.	General rule	26
------	--------------------	----

Chapter 11

LIABILITY OF AGENT TO THIRD PERSONS

TOPIC 1. CONTRACTS AND CONVEYANCES

**TITLE A. AGENT A PARTY TO A TRANSACTION
CONDUCTED BY HIMSELF**

320.	Principal disclosed	27
------	---------------------------	----

RESTATEMENT (SECOND) OF AGENCY

Section		Page
321.	Principal partially disclosed	27
322.	Principal undisclosed	27
326.	Principal known to be nonexistent or incompetent . . .	27
 TITLE B. AGENT NOT PARTY TO TRANSACTION CONDUCTED BY HIMSELF		
328.	Liability of authorized agent for performance of contract	28
329.	Agent who warrants authority	28
330.	Liability for misrepresentation of authority	28
 TITLE C. DEFENSES AND EFFECTS OF SUBSEQUENT EVENTS		
333.	Rights between other party and principal	28
334.	Defenses of agent—In general	29
335.	Agent surety for principal	29
336.	Election by other party to hold principal; agency disclosed	29
337.	Election by other party to hold principal; agency undisclosed	29

Chapter 13

DUTIES AND LIABILITIES OF AGENT TO PRINCIPAL

TOPIC 1. DUTIES

TITLE B. DUTIES OF SERVICE AND OBEDIENCE

377.	Contractual duties	30
379.	Duty of care and skill	30

TITLE C. DUTIES OF LOYALTY

387.	General principle	30
388.	Duty to account for profits arising out of employment	30
389.	Acting as adverse party without principal's consent . .	32
390.	Acting as adverse party with principal's consent	33
391.	Acting for adverse party without principal's consent	35
392.	Acting for adverse party with principal's consent	35
393.	Competition as to subject matter of agency	35
394.	Acting for one with conflicting interests	35
395.	Using or disclosing confidential information	35
396.	Using confidential information after termination of agency	36

TOPIC 2. LIABILITIES

401.	Liability for loss caused	36
403.	Liability for things received in violation of duty of loyalty	36
404.	Liability for use of principal's assets	36
407.	Principal's choice of remedies	38

Chapter 14

DUTIES AND LIABILITIES OF PRINCIPAL TO AGENT

TOPIC 1. CONTRACTUAL AND RESTITUTIONAL DUTIES AND LIABILITIES

TITLE A. INTERPRETATION OF CONTRACTS AND LIABILITIES THEREUNDER

438.	Duty of indemnity; the principle	38
439.	When duty of indemnity exists	39
440.	When no duty of indemnity	39
442.	Period of employment	40

Chapter 1

INTRODUCTORY MATTERS

TOPIC 1. DEFINITIONS

§ 1. Agency; Principal; Agent

(1) Agency is the fiduciary relation which results from the manifestation of consent by one person to another that the other shall act on his behalf and subject to his control, and consent by the other so to act.

(2) The one for whom action is to be taken is the principal.

(3) The one who is to act is the agent.

§ 2. Master; Servant; Independent Contractor

(1) A master is a principal who employs an agent to perform service in his affairs and who controls or has the right to control the physical conduct of the other in the performance of the service.

(2) A servant is an agent employed by a master to perform service in his affairs whose physical conduct in the performance of the service is controlled or is subject to the right to control by the master.

(3) An independent contractor is a person who contracts with another to do something for him but who is not controlled by the other nor subject to the other's right to control with respect to his physical conduct in the performance of the undertaking. He may or may not be an agent.

Comment:

a. Servants and non-servant agents. A master is a species of principal, and a servant is a species of agent. . . .

b. Servant contrasted with independent contractor. The word “servant” is used in contrast with “independent contractor”. The latter term includes all persons who contract to do something for another but who are not servants in doing the work undertaken. An agent who is not a servant is, therefore, an independent contractor when he contracts to act on account of the principal. Thus, a broker who contracts to sell goods for his principal is an independent contractor as distinguished from a servant. Although, under some circumstances, the principal is bound by the broker’s unauthorized contracts and representations, the principal is not liable to third persons for tangible harm resulting from his unauthorized physical conduct within the scope of the employment, as the principal would be for similar conduct by a servant; nor does the principal have the duties or immunities of a master towards the broker. Although an agent who contracts to act and who is not a servant is therefore an independent contractor, not all independent contractors are agents. Thus, one who contracts for a stipulated price to build a house for another and who reserves no direction over the conduct of the work is an independent contractor; but he is not an agent, since he is not a fiduciary, has no power to make the one employing him a party to a transaction, and is subject to no control over his conduct.

...

c. Servants not necessarily menials. As stated more fully in Section 220, the term servant does not denote menial or manual service. Many servants perform exacting work requiring intelligence rather than muscle. Thus the officers of a corporation or a ship, the interne in a hospital, all of whom give their time to their employers, are servants equally with the janitor and others performing manual labor. ...

§ 3. General Agent; Special Agent

(1) A general agent is an agent authorized to conduct a series of transactions involving a continuity of service.

(2) A special agent is an agent authorized to conduct a single transaction or a series of transactions not involving continuity of service.

§ 4. Disclosed Principal; Partially Disclosed Principal; Undisclosed Principal

(1) If, at the time of a transaction conducted by an agent, the other party thereto has notice that the agent is acting for a principal and of the principal’s identity, the principal is a disclosed principal.

(2) If the other party has notice that the agent is or may be acting for a principal but has no notice of the principal’s identity, the principal for whom the agent is acting is a partially disclosed principal.

(3) If the other party has no notice that the agent is acting for a principal, the one for whom he acts is an undisclosed principal.

§ 7. Authority

Authority is the power of the agent to affect the legal relations of the principal by acts done in accordance with the principal's manifestations of consent to him.

§ 8. Apparent Authority

Apparent authority is the power to affect the legal relations of another person by transactions with third persons, professedly as agent for the other, arising from and in accordance with the other's manifestations to such third persons.

§ 8A. Inherent Agency Power

Inherent agency power is a term used in the restatement of this subject to indicate the power of an agent which is derived not from authority, apparent authority or estoppel, but solely from the agency relation and exists for the protection of persons harmed by or dealing with a servant or other agent.

§ 8B. Estoppel; Change of Position

(1) A person who is not otherwise liable as a party to a transaction purported to be done on his account, is nevertheless subject to liability to persons who have changed their positions because of their belief that the transaction was entered into by or for him, if

(a) he intentionally or carelessly caused such belief, or

(b) knowing of such belief and that others might change their positions because of it, he did not take reasonable steps to notify them of the facts.

(2) An owner of property who represents to third persons that another is the owner of the property or who permits the other so to represent, or who realizes that third persons believe that another is the owner of the property, and that he could easily inform the third persons of the facts, is subject to the loss of the property if the other disposes of it to third persons who, in ignorance of the facts, purchase the property or otherwise change their position with reference to it.

(3) Change of position, as the phrase is used in the restatement of this subject, indicates payment of money, expenditure of labor, suffering a loss or subjection to legal liability.

TOPIC 3. ESSENTIAL CHARACTERISTICS OF RELATION

§ 13. Agent as a Fiduciary

An agent is a fiduciary with respect to matters within the scope of his agency.

§ 14. Control by Principal

A principal has the right to control the conduct of the agent with respect to matters entrusted to him.

**TOPIC 4. AGENCY DISTINGUISHED
FROM OTHER RELATIONS**

§ 14H. Agents or Holders of a Power Given for Their Benefit

One who holds a power created in the form of an agency authority, but given for the benefit of the power holder or of a third person, is not an agent of the one creating the power.

§ 14O. Security Holder Becoming a Principal

A creditor who assumes control of his debtor's business for the mutual benefit of himself and his debtor, may become a principal, with liability for the acts and transactions of the debtor in connection with the business.

Chapter 2

CREATION OF RELATION

TOPIC 1. MUTUAL CONSENT AND CONSIDERATION

§ 15. Manifestations of Consent

An agency relation exists only if there has been a manifestation by the principal to the agent that the agent may act on his account, and consent by the agent so to act.

TOPIC 3. CAPACITY OF PARTIES TO RELATION

§ 23. Agent Having Interests Adverse to Principal

One whose interests are adverse to those of another can be authorized to act on behalf of the other; it is a breach of duty for him so to act without revealing the existence and extent of such adverse interests.