

FINAL EXAMINATION
BUSINESS ASSOCIATIONS
PROFESSOR G. FLINT

ESSAY
PLEASE READ CAREFULLY

**ALL ANSWERS ARE TO BE WRITTEN ON THE BLUE BOOKS
PROVIDED WITH THIS EXAM**

There are three questions (time and percent indicated). The Time for completing the examination is four hours.

1. This examination is "open book". You may use your casebook, statutory supplement, and class notes. Use of calculators and cleansed laptops is permitted.
2. **Be sure to answer the specific question that is asked. No question calls for a general recitation about a topic from your notes.** Information supplied relating to general material from your notes or some unasked question will not increase your score and consumes your time needed to answer the asked questions.
3. If additional facts are necessary to resolve an issue, specify what additional facts you believe to be necessary and why they are significant. You may not make an assumption that changes or contradicts the stated facts. Assume you are in the State of Texas and Texas law applies, unless otherwise clearly denoted.
4. Quality, not quantity, is desired. Think through and briefly outline your answer before you begin to write.
5. Write legibly. Be sure to formulate your answers in complete sentences and paragraphs with proper grammar. Failure to do so will result in an appropriately lower score.
6. Do not seek an interpretation of language in the question from anyone. If you sense ambiguity or typographical error, correct the shortcoming by shaping the question in a reasonable way and by recording your editorial correction in your answer.

Under the Honor Code, when you turn in this examination, you affirm that you have neither given, received, nor obtained aid in connection with this examination, nor have you known of any one so doing. If you cannot make this affirmation, you shall note such fact on your examination and must immediately advise the Dean of the reason therefore.

I. (25 %--1 hour)

Otha Gasaway, George Christian, and George Justice graduated from law school last year and have been practicing family law together in an informal partnership. Otha Gasaway has become concerned that George Christian and George Justice might have made some legal errors with respect to certain wealthy clients and fears he might be liable for their malpractice. Similarly, George Christian and George Justice are not real keen on Otha Gasaway's legal expertise.

Otha Gasaway, George Christian, and George Justice have entered your associate's office at The Blue Blood Law Firm. They want to know if there is any method of shielding each other from the other's legal malpractice, yet otherwise continue as before. What changes, if any, do you propose that they make and why? Be sure to provide citations to your authority.

II. (25%--1 hour)

Justus Buck, Bateson Jewell, and Roswell Flint formed BJB, Inc., a Texas corporation, several years ago with three classes of common stock, each class with 1000 authorized shares. Justus Buck purchased 1000 shares of the Class A shares, Bateson Jewell purchased 1000 shares of the Class B shares, and Roswell Flint purchased 1000 shares of the Class C shares. The bylaws of BJB, Inc. provide that the board shall consist of three directors, one elected by the Class A shares, one elected by the Class B shares, and one elected by the Class C shares. Justus Buck and Roswell Flint elected themselves to the board of BJB, Inc., but Bateson Jewell elected Jane Crampton, his wife, to the board. Bateson Jewell and Jane Crampton recently had a contentious divorce, the settlement of which gave Jane Crampton 500 of the Class B shares of BJB, Inc., formerly held in the name of Bateson Jewell. Jane Crampton has become quarrelsome and uncooperative so the founders of BJB, Inc., Justus Buck, Bateson Jewell, and Roswell Flint have decided to remove Jane Crampton from any management position at BJB, Inc.

Justus Buck, Bateson Jewell, and Roswell Flint have entered your associate's office at The Silk Stocking Law Firm, P.C. They want to know what they need to do to remove Jane Crampton from any managing position at BJB, Inc. What is your recommendation. Be sure to include your support of appropriate code sections and relevant case law.

III. (25 %--1 hour)

Draper Voshell, chief executive officer of Draper Voshell, Inc., desires to have a distribution of 200% (of the outstanding shares). Draper Voshell, Inc., has 100,000 authorized shares of \$1 par value common stock, of which 10,000 are outstanding. The company's balance sheet currently is as follows:

Assets (in \$000s)		Liabilities (in \$000s)	
Cash	100	Notes	1030
Inventory	500		
Equipment	300	Equity	
Depreciation	(200) 100	Common Stock	10
Land	200	Paid in Surplus	5
Goodwill	150	Earned Surplus	5
Total	1050	Total	1050

Draper Voshell, Inc., uses the last-in, first-out method for evaluating the inventory. If Draper Voshell, Inc., used the first-in, first-out method for evaluating the inventory, the inventory entry would be 550. Draper Voshell, Inc., uses double declining depreciation on its equipment. If Draper Voshell, Inc., used straight line depreciation, the equipment entry would be 130.

Draper Voshell has your associate's office at Snob and Snob, P.C. He wants to know what he has to do to achieve the 200% stock dividend. What do you advise and why? Be sure to include your support of appropriate code sections and relevant case law.