Canadian business - November ed.

First Lecture after midterm — Nov. 2/2012

Midterm mark: 79% — Torts and contracts - always a question

- what is clause try to do, what does it apply to, personal perspective, explain what the clause means
- go through all clauses and subclauses
- don't go outside course notes, textbook, and contract for information

- get mail from people who you never heard from
  - use another name for donations, another for magazines
  - allows you to know which area sold your info to organizations

Corporations

- company (refers to)
- firm referred to partnership

corporation = company

* always need to know who is the party you are dealing with (in business field)

Benefits

1) you have limited liability - shareholders are not liable for downfall unless they personally signed for the debt
   - see individuals that are liable only when they ratify the debt
     - ↳ liable only when we assume debt
       - ex. buy a franchise, sign under corporation, franchiser will make you personally liable for the debts (all debts, legal fees, costs) ∴ you are personally liable
       - eg. Tim Hortons could be in trouble; graded as a D share because of McDonalds free coffee events, kills customer loyalty, can't compete
   - see a situation where individuals sign for franchisor
     - eg. areas in 2011 with top sales top end burgers and breast burgers; canadians eat less per capita of vegetables now then 30 years ago because of cost of portion size
     - eg. coras - opened to get income when husband left; only breakfast so she could take care of kids, became a franchise because serves what customer wants for breakfast
   - eg. TH sells equipment to franchisee, if don't have revenues to pay it will come out of your pocket, 13% royalties to main company HQ
   - eg. economy not doing well, many businesses are pulling out all the stops and still barely get by → Don Cherry's restaurant 1/2 price pizza and still can't fill room
     - → RIM
   - agreements are 5-7 years long → landlord is franchisor, can pack up and go any time
     - can't know what things will be like in that time

• be associated with

2) Financial Liability – in business, required to meet key financial rules

- dividend can only be declared by a board of directors, if and only if their are profits in account

eg. Nortel trial, share was $125/share; 1/3 of stock market of TSE, when plunged, couldn't get rid of shares; executives cooked the books to bring shares back up in order to sell their shares (claim followed accountants)

eg. USSR 40 years behind → didn't buy companies there

Worldcom @ conference of telecom → fancy presentation

ex. profit ratio's over 100 – 1999, February 2000 predicted 20% increase, 6 months later, announced largest deficit of any company → Nortel

cases of fraud:
- postphone actual debts → pay bonuses to executives instead of debts, file bankruptcy and walk away
- cook the books

3) Always has capacity to transfer shares → sell

4) Continuance → perpetual existence

• continue all the time

5) Structure is composed of 3 elements

i) shareholders – form business
ii) directors – manage business
iii) officers – executing administration tasks

• give expertise

• don't always have proper decisions made – GM bankrupcy; how could they not see what was coming and pay experts to forecast → don't allow people to express minority views on board

eg. Technology companies are dependent on pace of development
└ comador;

└ legally allowed, system does not permit dissenting voice

eg. BMO annual meeting – didn't last an hour and a half; high owners can bump dissenting members; doesn't allow criticism to come; follow recommendations of key shareholders

#1 institution on TSE is quebec government

• people who are running business don't like opposition

Taxation

- corporate tax is very low on small businesses
  - corporation pays 20% of income on first 1/2 million
    - don't pay dividend, money goes back to business, also a way to squeeze people out → three is a crowd
    - eg. 2/3 decide not to pay dividend cause running out of money, 3rd running out of money, offer to buy them out to pay for debts; money reinvested used to buy back shares → forces out someone don't like

eg. founder cirque de soleil; got first international break in LA 1987 after getting a little bit of money; now has mansion, went against board and had to play hard ball in order to get where they are (feuds, upsets, disagreements)

Internal Functioning

- built on premises

1) Classes of shares - one class must have 3 elements → you can limit the number of shares in this class
   - i) right to vote
   - ii) dividend → why invest if don't get money in return
   - iii) receive the assets upon dissolution

- other classes don't have to have all three

eg. Tim Hortons not generating dividends as well as previously

- there a shares in the market that are golden → McDonalds, more than half revenue not in states

have to think like a landlord - tenants pay mortgage

- Dividend reinvestment shares - when get dividend it is returned and used to buy more shares
  - dividend - take out taxes - buy more shares

eg. 1 share $2 → removed $.50 taxes

$1.50

$100 shares

∴ 101.50 shares

eg. RBC - builds pension plan through this process

- looking a putting money away to buy a condo in Florida
  - look a canadian currency
  - lowest point of currency in last 10 years $0.62
  - highest point " " " " " " $1.09 put LOC in canadian account

currency relatively consistent compared to stock

(1) follow the flow

(2) greed kills → max. play of 3%

(3) open account; $101.4 canadian ⇄ USA currency

(4) line of credit on equity ($500K)

(5) look at current flow

98¢ → 101.4

sell

3% 15K

open account in Florida, put money inside intrust, trust pays for property

2) Pre incorporation - activities prior to creation of the company

- consequently the business may ratify prior agreements
  - eg. sign lease, purchases
- corporation becomes liable for previous actions, dissolves the personal liability
- personal liability is a killer
- rental fees are killer #25-30/square foot; independent owners go alone because can't afford the rent

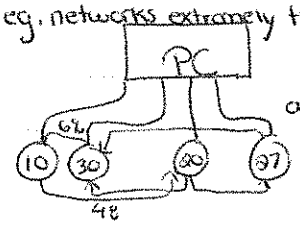
3) Specific Shares Rights

i) Cumulative rights - right to have dividend not paid in a year to be paid the following year
  - eg. declare dividend, don't have money to pay because of bill, wait to pay to see if they have money
  - preferential, before pay someone else always first on to get paid

ii) Redemption right - right of corporation to buy back shares at a given price
  - eg. Shell → bought back all shares of shell to keep profit in house

4) Private Corporation - under security legislation become private when you have 50 or less different share holders and you prohibit any invitation to the public

- not required under law to issue a prospectus - provide financial information about business
- eg. networks extremely tightly knitted



affiliates and subsidiaries

- everybody controls everybody
- boards are controlled by same people
- less than 50 share holders
- don't issue prospectus

- eg. Maple Leaf Foods - brand extensions, own brands, who they cater to all had recall

ON AVERAGE Less than 5 promotions to get to CEO

KEY is initial full-time position

5) Corporate Name - associated to the process of incorporation

- choose name that is acceptable, not obscene or unethical or discriminatory
- don't use Hitler, qualify names like 'Demon', 'Condom', ect.

- articals in corporation requires these