

### End of

### Unit One

### Pedagogy

****

|  |
| --- |
| *Unit 1* |
|  |

**Business and Its Legal Environment**

**Answers to Questions in the**

**Cumulative Business Hypothetical**

|  |
| --- |
|  |
| This unit concludes with a section that introduces a hypothetical business firm and asks a series of questions about how the law applies to various circumstances involving the firm. To answer the questions, students apply legal principles discussed in the unit. **Suggested answers to these questions are included in the *Answers to Questions and Case Problems to Accompany The Legal Environment Today*. We repeat these questions and answers here as a convenience to you.** |
|  |
| This series of hypothetical situations and questions can be used as a springboard for a review of the topics covered in the unit, or as a basis for other forms of class discus­sion. For example, students could be divided into small groups, with each group given one of the sets of facts to consider and respond to. Alternatively, any or all of the ques­tions might be assigned as an in-class quiz or a take-home test. |
|  |

***CompTac, Inc., which is headquartered in San Francisco, California, is one of the leading software manufacturers in the United States. The company invests millions of dollars in researching and developing new software applications and computer games that are sold worldwide. It also has a large service department and has taken great pains to offer its customers excellent support services.***

**1.** ***CompTac routinely purchases some of the materials necessary to pro­duce its computer games from a New York firm, Electrotex, Inc. A dispute arises be­tween the two firms, and CompTac wants to sue Electrotex for breach of contract. Can CompTac bring the suit in a California state court? Can CompTac bring the suit in a federal court? Explain.*** CompTac can bring suit in a California state court be­cause it is a “resident” of California. If the amount in controversy is at least the minimum required to bring a suit in a federal court, CompTac could file a complaint against Electrotex in a federal court based on diversity of citizenship. CompTac could also sue Electrotex in a New York court because Electrotex is a resident of that state.

**2. *A customer at one of CompTac’s retail stores stumbles over a crate in the parking lot and breaks her leg. The crate had just moments before fallen off a CompTac truck that was delivering goods from a CompTac warehouse to the store. The customer sues CompTac, alleging negligence. Will she succeed in her suit? Why or why not?*** An owner (or an occupier) of premises has a duty to use ordinary care to keep the premises in a reasonably safe condition and to warn customers of any foreseeable haz­ards. What constitutes a foreseeable hazard depends on whether a reasonably prudent per­son would conclude that harm could likely result form the conditions. In this instance, if a CompTac employee knew or should have known of the crate that fell from the truck, a court could find that CompTac’s failure to remove the crate constituted negligence, and CompTac could be held liable for the injuries. Of course, there are other defenses to negligence, but none of them seem to apply in this case.

**3.** ***Roban Electronics, a software manufacturer and one of CompTac’s ma­jor competitors, has been trying to convince one of CompTac’s key employees, Jim Baxter, to come to work for Roban. Roban knows that Baxter has a written employ­ment contract with CompTac, which Baxter would breach if he left CompTac before the contract expired. Baxter goes to work for Roban, and the departure of its key employee causes CompTac to suffer substantial losses due to delays in completing new software. Can CompTac sue Roban to recoup some of these losses? If so, on what ground?*** CompTac could file a suit against Rodan on the ground of wrongful interfer­ence with a contractual relationship. CompTac and Baxter had a valid contract, Rodan knew of the agreement before it hired Baxter, and Rodan caused Baxter to breach the agreement by offering him the job that he accepted.

**4.** ***One of CompTac’s employees in its accounting division, Alan Green, has a gambling problem. To repay a gambling debt of $10,000, Green decides to “borrow” some money from CompTac to cover the debt. Using his “hacking” skills and his knowledge of CompTac account numbers, Green electronically transfers CompTac funds into his personal checking account. A week later, he is luckier at gambling and uses the same electronic procedures to transfer funds from his personal check­ing account to the relevant CompTac account. Has Green committed any crimes? If so, what are they?*** Green has committed embezzlement. The crime of embezzlement is committed when a person entrusted with another’s property or money fraudulently appropri­ates it. That Green repaid the “borrowed” funds is no defense (although an embezzler who returns what has been taken may not be prosecuted because the owner may not wish to take the time to make a complaint, give depositions, appear in court, and so on). Depending on exactly how Green engineered the theft and the law of the state in which the crimes were committed, Green may also have committed other crimes—forgery or larceny, for example. Green may also have committed a federal computer crime.

**5. *One of CompTac’s best-selling products is a computer game that includes some extremely violent actions. Groups of parents, educators, and consumer activ­ists have bombarded CompTac with letters and e-mail messages calling on the com­pany to stop selling the product. CompTac executives are concerned about the pub­lic outcry, but at the same time they realize that the game is CompTac’s major source of profits. If it ceased marketing the game, the company could go bankrupt. If you were a CompTac decision maker, what would your decision be in this situation? How would you justify your decision from an ethical perspective?*** Your answer to this question depends in part on the priority you assign to corporate profits and the effect you be­lieve the corporate image has on those profits. This priority may be determined in part by the duties that you perceive are owed to some members of the corporate constituency: sharehold­ers, employees, the community, and society as a whole. If you believe that the duty to share­holders takes precedence, then your decision will be to maximize (or at least optimize) prof­its—which may not happen if the campaign against the company has the effect of reducing the sales of the games, or the sales of all company products. If profits are not affected by the protests, however, a decision to discontinue the game line likely *would* affect profits and might undercut not only a duty to the shareholders, but a duty to the employees, who depend on the fortunes of the company for their livelihood. Because the company and the employees are part of the community in which they do business, undercutting profits to the point at which, for example, a plant would have to close can affect that community—the tax base would be reduced while the entitlement burden (in terms of unemployment compensation and so on) would be increased. Perhaps the most controversial aspect of such decisions as discon­tinuing a product line is the degree to which a duty to society as a whole should be taken into account. It can be argued that society benefits from profit-making activities. Business activi­ties should be discontinued only when they are no longer profitable or when their benefits in general are outweighed by their harms.

6. CompTac wants to sell one of its best-selling software programs to An Phat Company, a firm located in Ho Chi Minh City, Vietnam. CompTac is concerned, however, that after an initial purchase, An Phat will duplicate the software without permission (and in violation of U.S. copyright laws), and sell the illegal bootleg software to other firms in Vietnam. How can CompTac protect its software from being pirated by An Phat Company? CompTac, or any U.S. firm, can license its formula, process, or product, including software, to a foreign firm to avoid its piracy or theft. The foreign firm obtains the right to make and sell the product according to the formula (or the right to use the process) and agrees to keep the necessary information secret and to pay royalties to the licensor. The royalties might be based on so many cents per unit made or a percentage of profits from units sold in a particular geographic territory.

The licensing of copyrighted property can benefit both parties. A firm that receives the license can take advantage of an established reputation. The firm that grants the license can receive income from the sale of the license or the sales of its products and may also enhance its reputation. Once a firm’s products are more widely known—in this problem globally—the firm may experience an increased demand for other products that it makes or sells as well.