

Engineering Entrepreneurship: Forming the business

ENGR 4302/5302; EE 4302/5302



**WHAT EVERY ENGINEER
SHOULD KNOW ABOUT
STARTING A
HIGH-TECH
BUSINESS
VENTURE**

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Note:

In this course, we have a collection of lectures composed of decks of slides. Often, as in this deck, there is a lot of information/words on each slide. The instructors will not cover every point in detail. We ask you to review/read these slides over; there is typically sufficient coherent material for efficient information transfer/learning to be possible.

HOW TO KNOW **WHEN** IS THE RIGHT TIME TO INCORPORATE?

What are key considerations to help decide when you should incorporate your new business?

- Is your business **currently operating**? If your business is already operating and doing activities such as entering into contracts, providing services (even via a website), or hiring employees, you may want to incorporate or form an LLC sooner. If you do not operate under the protection of a corporation, limited partnership, or LLC, your **personal assets** may be exposed in the event of liability.
- Is your business **not currently operating**? If you are not operating the business (and are primarily in research, recruitment, and prestartup phase), there is little business risk in waiting to incorporate.
- Do you want to reserve a particular **name** for your entity? If there is a particular name you want for the company, you may consider incorporating to reserve that name. Otherwise, you may want to simply reserve the name without incorporating.
- Are you **employed** at another job? In particular, if your potential new business will have some overlap with your current employer, you may want to wait until after terminating your employment before incorporating or forming an LLC.

If unrelated business, this is not an issue

HOW TO KNOW **WHEN** IS THE RIGHT TIME TO INCORPORATE?(CONTINUED)

- Are you expecting **tax losses** in the near future? If you are planning to form a corporation rather than an LLC or another pass-through entity, you will treat taxable losses differently. Losses will not “pass-through” a corporation for tax purposes.
- Do you have a **financing** that will likely close in the near future? Problems can arise for certain new companies that want to issue stock to their founders at low prices if they wait until the company is nearing a financing. The problem arises because the company is selling its stock to investors at a much higher price than it hopes to issue stock to its founders.
- Are you applying for any **grants**, loans, or similar programs? Some grant and loan programs will require you to have established your entity to participate in the program application process.
- Are there **cost implications**? If you are not operating, when you form the company you’ll likely have additional costs to pay your accountant for filing your annual taxes and to pay your attorney to assist with formation matters.

HOW TO KNOW **WHEN** IS THE RIGHT TIME TO INCORPORATE?(CONTINUED)

- Are there **tax or fee** implications? Some states have minimum tax filing amounts for a corporation even if you are not active.
- Are you currently paying **self-employment tax**? If you are currently operating as a sole proprietor or in a partnership, you will likely be subject to self-employment tax. This may mean you are currently paying more than 15% of your earnings for self-employment obligations to Medicare and Social Security. If you instead incorporated or formed an LLC, you would not pay the self-employment tax on any profit that remains in the corporation or LLC.
- Do you have any timing requirements? Depending on the time of year, you may find that you have to wait longer to receive confirmations of filings. This is particularly true at the beginning of a year and at the beginning or end of a month.

DOES IT REALLY MATTER HOW WE LEGALLY STRUCTURE OUR BUSINESS?

What could happen

We read somewhere that another successful entrepreneur said he was “double-taxed” on his C-corporation. He said that for his second company, he set up an LLC and then later converted the LLC to a C-corporation right before funding. Is this the right approach for us?

What to expect

Remember when considering how to structure your business, there is not one “right” approach. Every new business will have differing timetables, goals, and needs, so it is important to create a legal structure that accounts for this. Although this successful entrepreneur is correct that a C-corporation is subject to double taxation (whereby the corporation is taxed and the dividends distributed are also taxed), not every new venture would benefit from this approach.

DOES IT REALLY MATTER HOW WE LEGALLY STRUCTURE OUR BUSINESS?

What to expect (CONTINUED)

Structuring your business is an important first consideration, so be sure to get advice customized to your personal and business plans. Although the upsides of using an LLC may avoid double taxation, conversions from an LLC to a C-corporation add additional legal and accounting expenses and may yield headaches for potential investors. Some new ventures begin as S-corporations (which primarily involve a C-corporation making a filing with the IRS, as well as other structural steps) and later change to C-corporations by revoking that filing. Other businesses may consider creating subsidiaries. Each option has its own set of benefits and drawbacks. Careful up-front planning on your business structure will aid in later efforts of fundraising, equity ownership, and costs for third-party service providers.

TIP: Proper planning for your business structure can save time, money, and headaches down the road.

Rules of thumb:

- ▶ **Rule 1:** If your business is a 1–person company and you are making a profit that is in line with what your salary would be if you were not working for yourself, consider forming a single–member LLC. A single–member LLC is like being a sole proprietor for tax purposes (profits and losses will pass through the LLC directly to you), but it will give you protection from certain liabilities. An LLC has the simplest tax and accounting rules.
Example: Tiwaz Tech LLC
- ▶ **Rule 2:** If your business is a 1–person company and you are making big profits (in excess of a typical salary you'd earn working for someone else), consider forming an S–corporation. The benefit of forming an S–corporation in this scenario is that this structure will save you on self–employment taxes. You can form the S–corporation by incorporating as a standard C–corporation (or LLC in certain cases) and then making a filing with the IRS. The accounting and taxation are more complex in this setup.

Rules of thumb:

- ▶ **Rule 3:** If you are unsure whether you'll ever pursue venture capital financing and, if you were to pursue it, believe you'll wait a couple of years, consider forming either an S-corporation or an LLC. The most important and immediate benefit to incorporating or forming an LLC is liability protections. Both entities offer that protection and allow profits and losses to pass through to the individual for tax purposes.
- ▶ **Rule 4:** If your business growth strategy involves raising money from investors in the upcoming 6–24 months, consider forming a C-corporation. An outside investor such as a VC will desire to purchase the stock of your company. The VC will also require that the profits and losses remain with the company and not pass through to the owners.

Rules of thumb:

- ▶ **Rule 5:** If you are planning to create a high growth company in need of substantial outside funding, consider incorporating in Delaware. A majority of venture-funded companies are incorporated in Delaware. There are a number of benefits, including greater comfort among investors, well-established corporate law, and fairly low incorporation fees. If you believe your company will become a venture-backed company, Delaware represents a logical choice.
- ▶ Conversely, if the plans for your company are less clear and your growth horizon is longer term, plus you are planning to transact business in your home state, consider incorporating (or forming your LLC) in your home state.
- ▶ **Summary.** These **five broad concepts** should offer you some rules of thumb for your choices. Obviously, your choice of entity is important, but don't be too concerned, as changing from one entity to another isn't uncommon. Ultimately, you should make your entity choice and jurisdiction based on research and critical thinking, but you should not let the decision allow you to lose sleep.

Comparison of Entity Types

Characteristics	Sole proprietorship	C-Corporation	S-Corporation	LLC
Formation	No state filing required	State filing required	State filing required	State filing required
Duration of existence	Dissolved if entity ceases doing business or on death of the sole proprietor	Perpetual	Perpetual	Dependent on the requirements imposed by the state of formation
Liability	Sole proprietor has unlimited liability	Shareholders are typically not responsible for the debts of the corporation	Shareholders are typically not personally liable for the debts of the corporation	Members are not typically liable for the debts of the LLC
Operational requirements	Relatively few legal requirements	Board of directors, annual meetings, and annual reporting required	Board of directors, annual meetings, and annual reporting required	Some formal requirements but less formal than corporations
Management	Sole proprietor has full control of management and operations	Managed by the directors, who are elected by the shareholders	Managed by the directors, who are elected by the shareholders	Members have an operating agreement that outlines management

(CONTINUED)

Characteristics	Sole proprietorship	C-Corporation	S-Corporation	LLC
Taxation	Not a taxable entity; sole proprietor pays all taxes	Taxed at the entity level; if dividends are distributed to shareholders, dividends are also taxed at the individual level	No tax at the entity level; income/loss is passed through to the shareholders	If properly structured, there is no tax at the entity level; income/loss is passed through to members
Pass through income/loss	Yes	No	Yes	Yes
Double taxation	No	Yes, if income is distributed to shareholders in the form of dividends	No	No
Cost of creation	None	State filing fee required	State filing fee required	State filing fee required
Raising capital	Often difficult unless individual contributes funds	Shares of stock are sold to raise capital	Shares of stock are sold to raise capital	Possible to sell interests, although subject to operating agreement restrictions
Transferability of interest	No	Shares of stock are easily transferred	Yes, but must observe IRS regulations on who can own stock	Possibly, depending on restrictions outlined in the operating agreement

	<u>S Corporation</u>	<u>C Corporation</u>	<u>LLCs</u>	<u>DBA</u>
Recommended For	Owners wanting the liability protection of a corporation, with the simplicity of pass-through taxation of income	Owners needing maximum tax and ownership flexibility, combined with liability protection	Owners wanting the simplicity of pass-through income taxation and the liability protection of a corporation with fewer formalities. Great for passive income and real estate investments.	Owners wanting to legally do business as a particular name without having to create an entirely new or amend an existing business entity
Ownership	Shareholders (restrictions against corporate shareholders, nonresident aliens, and > 100 shareholders)	Shareholders	Members	Owners
Personal Liability	Shareholders typically not liable for corporate debts	Shareholders typically not liable for corporate debts	Members typically not liable for debts of LLC	Owners are personally liable for all debts of the business
Formalities & Record Keeping Requirements	Formal board and shareholder meetings and minutes Annual state reports	Formal board and shareholder meetings and minutes Annual state reports	Annual state reports	Must renew your application and publish (if required) every 4-5 years depending on state

Reference: LegalZoom.com

	<u>S Corporation</u>	<u>C Corporation</u>	<u>LLCs</u>	<u>DBA</u>
Taxation	No tax at entity level Income/loss passed through to shareholders	Taxed at entity level If dividends distributed to shareholders, dividend income taxed at individual level	By default, no tax at the entity level if properly structured Income/loss is passed through to members (as in a partnership or sole proprietorship) May opt to be taxed as C or S corporation.	No tax at entity level Income/loss passed through to shareholders
Tax Reporting	Income on Form 1120S Salaries on Form W-2 Profit distribution on Schedule K-1	Income on Form 1120 Salaries on Form W-2 Profit distribution on Form 1099-DIV	Income on Form 1040, Schedule C OR Form 1065 & Schedule K-1 for profit distributions	Schedule C If Partnership Schedule K-1

Reference: LegalZoom.com

	<u>S Corporation</u>	<u>C Corporation</u>	<u>LLCs</u>	<u>DBA</u>
Management & Operation	<p>Managed by directors, elected by shareholders</p> <p>Day-to-day operations run by officers appointed by directors</p>	<p>Managed by directors, elected by shareholders</p> <p>Day-to-day operations run by officers appointed by directors</p>	<p>Flexibility similar to a partnership</p> <p>An operating agreement typically outlines management duties</p> <p>Optional board of managers</p>	<p>Managed by owners</p>
Formation Requirements	<p>State filing</p> <p>Subchapter S election with IRS typically required within 60 days of formation. To select, simply check one-question option on LegalZoom's questionnaire</p>	<p>State filing</p>	<p>State filing</p>	<p>State or county DBA filing required generally before using your DBA, and in some cases within 30-40 days of your first business transaction</p> <p>Some states require a published notice in local newspaper along with proof of fulfillment</p>

Reference: LegalZoom.com

A SEPARATE ENTITY FOR YOUR INTELLECTUAL PROPERTY

What could happen Magnusson's company did this: Resonant Optics Incorporated (ROI)/Resonant Sensors Incorporated (RSI) as IP is very diverse. Most IP resides in ROI.

You have developed some very interesting intellectual property, some of which doesn't relate to the business you are building. Someone has told you to set up a separate company for your intellectual property, which will "license" the intellectual property to your startup company. What will investors think of this?

What to expect

Many sophisticated entrepreneurs want to protect themselves from "giving away the farm" in their new business. Therefore, they consider **setting up a separate holding company** for their intellectual property, to keep the rights separate from the startup. The theory is that this will allow the entrepreneur **to form multiple startups** based on this intellectual property.

In practice, most investors are wary of such a structure. If an investor is pouring money into the business, they want to make sure that (1) the team is committed to the business and (2) the intellectual property is protected that will be used for the business. Unfortunately, setting up this separate entity for the intellectual property **raises red flags for an investor.** **New sensor IP resides in RSI-continuous activity!**

Before you decide to structure your business with intellectual property located in a separate entity, be sure to speak with your attorney. If a future investor is likely to require that the structure be folded into the business, no need to waste valuable time, money, and energy to build this complex structure.

TIP: Sheltering intellectual property in a separate legal entity can raise red flags for potential investors.

S-CORPORATION AND THE LLC: THE DIFFERENCES THAT MATTER

What else differentiates these two different types of entities?

Downsides of an S-corporation:

- No more than 75 shareholders
- No foreign owners
- Only one class of stock
- Can easily fall out of compliance and lose tax benefits
- Less flexible structure

Downsides of an LLC:

- More complicated as its size increases
- More expensive state filing fees (typically)
- May create tax issues if acquired by a third party
- Unable to issue incentive stock options (although other mechanisms do exist)
- Unable to “write off” startup business losses **?—not really true**
- Less “standard,” which may increase compliance costs and attorney fees for preparation of operational documents
- Does not have stock, which is sometimes more difficult/confusing for investors or employees

Incorporation/LLC: To-do list

- ▶ Select your state of incorporation
- ▶ Find a good name—consider TM too
- ▶ File in state
- ▶ Initiate formal corporate actions
 - Resolutions
 - Bylaws
- ▶ Get your EIN=Employer Identification Number

WHY DELAWARE?

What are some of the key reasons why so many corporations choose to incorporate in Delaware?

- Formation is fast and relatively easy
- Relatively low fees to incorporate
- Relatively low annual franchise taxes
- Separate court system for corporations that does not use juries
- Shares of a Delaware corporation are not subject to Delaware state personal income tax or inheritance taxes
- Delaware corporations that do not conduct business in Delaware are not required to pay Delaware state corporate income tax
- Only requires one officer (a single individual can hold all the offices of the corporation)
- Greater privacy for board members (Delaware corporations are not required to identify or give the addresses of individual board members)
- No need to be a state resident (you are required to have a registered agent in the state but not required to have any office or operations in the state)

Sample State Filing Fees and Expenses (as of February 2008)

	CA	CO	DE	FL	IL	MD	MA	NY	TX	WA
Incorporation (Corp.)										
Filing fee/state fee	\$ 100	\$ 125	\$ 89	\$ 70	\$ 150	\$ 120	\$ 275	\$ 125	\$ 300	\$ 175
Minimum franchise tax	800		35		75	300				59
Annual report filing fee	25	100	25	150	25		125	9		10
Total (Estimated)	\$ 925	\$ 225	\$ 149	\$ 220	\$ 250	\$ 420	\$ 400	\$ 134	\$ 300	\$ 244
<i>Fees for expedited filings</i>	<i>\$350</i>	<i>\$150</i>	<i>\$119+</i>	<i>\$70</i>	<i>\$100</i>	<i>\$50</i>	<i>4.5% fee</i>	<i>\$25+</i>	<i>\$25</i>	<i>\$20</i>
Foreign Qualification (Corp.)										
Filing fee/state fee	\$ 100	\$ 125	\$ 160	\$ 88	\$ 200	\$ 100	\$ 400	\$ 225	\$ 750	\$ 175
Minimum franchise tax	800				75	300				59
Annual report filing fee	25	100			25		125	300		10
Total (Estimated)	\$ 925	\$ 225	\$ 160	\$ 88	\$ 300	\$ 400	\$ 525	\$ 525	\$ 750	\$ 244
<i>Fees for expedited filings</i>	<i>\$350</i>	<i>\$150</i>	<i>\$119+</i>	<i>\$70</i>	<i>\$100</i>	<i>\$50</i>	<i>4.5% fee</i>	<i>\$25+</i>	<i>\$25</i>	<i>\$20</i>

	CA	CO	DE	FL	IL	MD	MA	NY	TX	WA
Formation (LLC)										
Filing fee/state fee	\$ 70	\$ 125	\$ 120	\$ 125	\$ 500	\$ 100	\$ 500	\$ 200	\$ 300	\$ 175
Minimum franchise tax	800		200		75					59
Annual report filing fee	20	100		139	25		500	325+		10
Total (Estimated)	\$ 890	\$ 225	\$ 320	\$ 264	\$ 600	\$ 100	\$ 1,000	\$ 575+	\$ 300	\$ 244
<i>Fees for expedited filings</i>	<i>\$350</i>	<i>\$150</i>	<i>\$40+</i>	<i>n/a</i>	<i>\$100</i>	<i>\$50</i>	<i>4.5% fee</i>	<i>\$25+</i>	<i>\$25</i>	<i>\$20</i>
Registration (LLC) Foreign companies										
Filing fee/state fee	\$ 70	\$ 125	\$ 130	\$ 125	\$ 500	\$ 100	\$ 500	\$ 250	\$ 750	\$ 175
Minimum franchise tax	800				75					59
Annual report filing fee	20	100			25		500	325+		10
Total (Estimated)	\$ 890	\$ 225	\$ 130	\$ 125	\$ 600	\$ 100	\$ 1,000	\$ 575+	\$ 750	\$ 244
<i>Fees for expedited filings</i>	<i>\$350</i>	<i>\$150</i>	<i>\$40+</i>	<i>n/a</i>	<i>\$100</i>	<i>\$50</i>	<i>4.5% fee</i>	<i>\$25+</i>	<i>\$25</i>	<i>\$20</i>

What is a “foreign” corporation?

A **foreign corporation** is a term used in the United States for an existing corporation that is registered to do business in a state or other jurisdiction other than where it was originally incorporated.

A foreign corporation is one incorporated as a domestic corporation in one state of the United States, authorized to do business in additional state(s); the term is also applied to a corporation incorporated outside the United States which is authorized to do business in one or more states of the United States.

To a degree, the same rules apply with respect to a Limited Liability Company (LLC), in that it is a domestic LLC in the state where it is originally chartered, and a foreign LLC everywhere else.

For U.S. federal tax purposes, "foreign corporation" means a corporation which is not created or organized in the United States.

Ref: Wikipedia

Taking formal corporate actions

- ▶ Organizational resolutions (see next slide)
- ▶ Bylaws:
 - No legal requirement that a corporation have bylaws
 - Powers and responsibilities of the corporation's directors and officers
 - Manner of calling meetings of shareholders and directors
 - Maintenance of corporate records
 - Shareholder rights
 - Voting and proxy solicitation procedures
 - Regulation of transfer of shares
 - Indemnification of directors, officers, employees, and other corporate agents to the extent that indemnification is not covered in the articles

WHAT TO INCLUDE IN YOUR ORGANIZATIONAL RESOLUTIONS

Generally, among other things, your organizational resolutions will take the following actions (many of which are formalities that are just important to get out of the way early on):

1. Call for the insertion into the minute book of the corporation's articles of incorporation/certificate of incorporation as filed with the secretary of state
2. Require the corporation to maintain a minute book including the articles and all amendments to the articles, the bylaws, and all amendments to the bylaws and the minutes of all board of director and shareholder meetings
3. Authorize the selection of a corporate seal
4. Authorize the election of the corporation's officers and specify which officers may sign on behalf of the corporation and/or obligate the corporation in matters relating to its business
5. Authorize the selection of a specimen stock certificate for the corporation's common stock
6. Authorize the issuance of stock to initial shareholders (if stock is to be issued)
7. Authorize the selection of the corporation's fiscal year
8. Designate the corporation's bank and accounting firm
9. Authorize the payment of the corporation's incorporation expenses
10. Authorize the corporation's officers to qualify the corporation to do business as a foreign corporation in states where such qualification is deemed necessary
11. Authorize the election of S-corporation status for the corporation, if desirable

Taking formal corporate actions

- ▶ **Employer Identification Numbers !!**
 - Must have Federal EID to complete tax returns
 - Obtained by filing Form SS-4 with the IRS
- ▶ **Qualifying to do business in another state**
 - States becoming increasingly aggressive in treating foreign corporations as subject to their taxing jurisdiction based on virtually any activity within their borders

HOW DO I KNOW WHETHER I NEED TO REGISTER IN A STATE?

Typical activities that will require a corporation to qualify to do business in a state are as follows:

1. Transaction of a substantial amount of its ordinary business in the state
2. Maintaining an active office in the state
3. Manufacturing products in the state, but activities of substantially less magnitude may also require qualification

CORPORATE FORMALITIES FROM THE BEGINNING !!!

What could happen

Because our company is in its early stages, is busy building the business, and has a board composed of just the founders, does it matter whether we keep corporate minutes, have formal board meetings, and do official option grants?

Watch out for

Absolutely. Companies that do not follow corporate formalities risk losing their corporate status and (as discussed below) could have a court rule to “pierce the corporate veil” and go after your personal assets.

In particular, you should be certain to follow corporate formalities with shareholder and director meetings, by signing appropriate documents as a corporation, with appropriate corporate record keeping, by appropriate state and federal filings such as corporate reports, franchise taxes, and federal and state corporate tax, maintaining proper bank accounts, and keeping proper financial statements and records.

In addition, if you are looking to raise funds, enter into certain partnership agreements, acquire an entity, merge, or be sold, you will risk sinking the deal if you cannot produce a clean set of your corporate records.

TIP: Follow proper corporate formalities or risk losing your corporate status.

BoD: Makes all important decisions

WHAT KIND OF THINGS DOES THE BOARD OF DIRECTORS NEED TO APPROVE?

Typical actions that may be necessary or desirable for the board of directors to approve include the following:

- Issuing securities and granting options, warrants, or other rights to purchase securities
- Adopting a stock option plan
- Amending the articles of incorporation
- Amending the bylaws
- Entering into major contracts, leases, or other obligations
- Declaring distributions, dividends, or stock splits
- Borrowing significant sums and the giving of security in connection with such borrowings
- Entering into employment agreements with key employees

BoD: Makes all important decisions

WHAT KIND OF THINGS DOES THE BOARD OF DIRECTORS NEED TO APPROVE?(CONTINUED)

- Electing officers of the company and setting or changing their compensation and terms of employment
- Adopting or amending employee benefit plans
- Forming subsidiaries
- Designating committees of the board and the powers of the committees
- Calling shareholders' meetings
- Buying or selling significant assets
- Electing directors to fill vacancies on the board
- Adopting company policies
- Merging or reorganizing the company
- Entering into a new line of business
- Changing the principal place of business
- Commencing or settling material litigation
- Taking any other actions material to the business

PIERCING THE CORPORATE VEIL

Despite the general applicability of the rule that creditors of a corporation may not proceed against the assets of any shareholders of the corporation (the operational meaning of “limited liability”), specific circumstances may permit such creditors to “pierce the corporate veil” to satisfy corporate obligations by levying against assets of the shareholders. The cases generally have permitted the corporate veil to be pierced when fraud or similar malfeasance have occurred, and when it would be manifestly unfair to allow a shareholder to hide behind limited liability. Thus, it is important to note that the mere incorporation does not automatically prevent creditors of the corporation from reaching the assets of the corporation’s shareholders.

The following are among the facts that courts have relied on in allowing the corporate veil to be pierced: (1) disregard of corporate formalities; (2) comingling of personal and corporate assets or diversion of corporate assets to personal use; (3) “holding out” to creditors by a shareholder that the shareholder is the obligor; (4) inadequate capitalization of the corporation; and (5) manipulation of corporate assets and liabilities by the shareholder.

A pierced veil: You lose your personal assets

PIERCING THE CORPORATE VEIL (CONTINUED)

To preserve limited liability for its shareholders, a corporation at a minimum should do the following to treat the corporation as a **true separate entity**:

- Obtain and record shareholder and board authorization for corporate actions
- Maintain complete and proper records for the corporation separate from the personal records of the corporation's owners
- Make it clear in all contracts with others that they are dealing with the corporation and not any particular individual, for example, by using the following signature block format on all contracts and agreements:

[NAME OF CORPORATION]

By: _____

Title: _____

- Conduct all transactions between the corporation and its shareholders, officers, and directors on an arms-length basis whenever possible. The board of directors should approve any such transaction by a vote of the disinterested directors (or, if all the directors are interested in the transaction, by a vote of the disinterested shareholders), after all the facts material to the transaction have been disclosed
- Start the business with a sufficient amount of equity in light of the future capital needs of the business

Shareholders have a vote

WHAT KIND OF THINGS DO THE **SHAREHOLDERS** NEED TO APPROVE?

Typical actions that may be necessary or desirable for the shareholders to approve include the following:

- Merger or reorganization of the corporation
- Amendment of the articles of incorporation
- Amendment of the bylaws (other than an amendment setting the exact number of directors within the range established by the bylaws or articles of incorporation)
- Sale or transfer of all or substantially all of the corporation's assets
- Approval of contracts with interested directors
- Authorization of indemnity of a corporate agent for liability incurred when acting on behalf of the company
- Issuance of securities
- Adoption of stock option plans
- Winding up or dissolution of the corporation

Interest of director

- ▶ 1. Ownership of a firm's securities by its own directors, which must be disclosed by way of footnotes to the firm's balance sheet and income statement, and/or in the directors' report.
- ▶ 2. Involvement of a person in a transaction (from which he or she, directly or indirectly, stands to make profit) with a firm in which he or she is a director. Such interest must be disclosed not only to the other directors of the firm but to all stockholders (shareholders) in a general meeting. However, an interest that does not create a conflict of interest is generally not required to be disclosed.

Reference: <http://www.businessdictionary.com>