

QUESTION 2 THE ANSWER TO THIS QUESTION SHOULD GO IN BLUEBOOK I

The Rippy Company, a properly formed Michigan corporation, designs and manufactures men's bow ties. The corporation's articles of incorporation indicate that the Rippy Company "elects to have shareholder preemptive rights," but provides no further elaboration. Dan Dion and his sister Carolyn Call each own 100 shares of Rippy stock.

In July 2010, the company sustained heavy financial losses after its new product line, Gouda cheese bow ties, did not sell as well as anticipated.

In order to raise badly needed capital, the board of directors voted to call a special meeting of the shareholders, proposing to issue an additional 100,000 shares of Rippy corporate stock. The board provided 15 days notice to all shareholders of record by e-mail, describing the purpose of the meeting. Because Dan was going on an extended vacation and was unsure whether he would return in time for the shareholder meeting, Dan forwarded the e-mail to his sister Carolyn from his personal e-mail account. The message sent along with the forwarded e-mail authorized Carolyn to **vote** for the resolution on Dan's behalf by proxy. At the August 14, 2010 meeting, Carolyn **took a copy** of the e-mail Dan sent to her as proof of her proxy authorization and voted both her shares and Dan's shares in favor of the stock issuance. The stock issuance was approved by 58% of the shares entitled to vote. A certificate amending the articles of incorporation was filed with the state, and the proper authorizations were obtained from the Michigan Corporation and Securities Commission.

Two weeks later, the board of directors sent out notice to all shareholders of record, indicating that the 100,000 shares would be offered to the shareholders for \$10 per share, and that each shareholder would be entitled to purchase 5 shares for every share of Rippy stock currently held. The notice also provided that if any shareholder failed to claim all or part of the shares before November 1, 2010, that the board of directors would sell the shares to other interested Rippy shareholders on a lottery basis for the same price. When Dan Dion returned from his vacation on November 21, 2010, he discovered that all 100,000 shares of the newly offered Rippy stock had been purchased. All but 4 shareholders (including Dan) had opted to purchase their share of the new stock. Dan's share was sold to Greg Greedy, a fellow Rippy shareholder. Dan demanded to purchase 500 shares of stock for \$5,000, but Greg refused.

Using Michigan law, assess the validity of Dan's claims challenging (1) the validity of the proxy Dan gave to his sister Carolyn; (2) the vote of the shareholders authorizing the additional issuance of stock; and (3) the terms prescribed by the board of directors for the acquisition of Rippy stock.

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