

## **ESSAY QUESTION NO. 8**

### **Answer this question in Answer Booklet No. 8**

Rotor Heads Inc., an Alaska corporation, owns numerous helicopters that are equipped to fight fires. Pete Smith owns a business located in Fairbanks, Alaska. His business has special trucks equipped for fire fighting and employs over 100 trained fire fighting personnel seasonally and 2 full time employees with extensive experience in fighting fires. Rotor Heads and Pete decide to form an Alaska corporation, named "Fire Stoppers Inc." for the purpose of supplying a privately owned ground and air fire fighting package to city governments.

Pete and Rotor Heads each own 50% of stock in the new corporation. At a meeting in Anchorage, Pete and Rotor Heads enter into a written shareholder agreement whereby Rotor Heads agrees to supply helicopters with crew and fuel at cost for use by the new corporation over the next five years. Pete agrees to market the services of Fire Stoppers, manage their customer contracts, and supply his special trucks at cost over the same five year period. He is given full authority to sign contracts on behalf of Fire Stoppers.

In March 2003, Pete markets the services of Fire Stoppers and executes contracts with three Alaska cities. He notifies Rotor Heads of his success and they seem pleased. In May 2003, Pete directs Rotor Heads to position the helicopters in the Alaska cities by May 15. At that time, Rotor Heads informs Pete that all of their helicopters are being used on other Rotor Heads' jobs and won't be available until September 20, well after the 2003 fire season has ended. Pete scrambles but is unable to locate another aviation company willing to subcontract for helicopter support. Fire Stoppers defaults on all three contracts with Alaska cities.

- 1) Pete wants to recover from Rotor Heads the lost profits that Fire Stoppers would have earned under the defaulted contracts. How should he structure his lawsuit against Rotor Heads to achieve this goal?
- 2) Discuss whether Pete can sue Rotor Heads in his own name and for his own personal benefit for the diminished value of his shares in Fire Stoppers.
- 3) What must Pete do to dissolve Fire Stoppers, and how could Rotor Heads stop him?