

COMPANY LAW - THE BASICS

Many areas of law that seem extremely complicated are often relatively simple to understand. Corporate law (or company law - the terms are interchangeable) is a good example. Maybe it is seen as complicated because Hollywood screenwriters consistently use stock swindles, corporate power struggles and takeovers as backdrops for their dramas. Maybe it's because the stock markets are such difficult places to make money. Probably it's because the complicated parts of corporate law really are quite complicated.

Whatever the reason, the basics are probably all that most people will ever need to understand. By the time you finish this article, you should have a fairly good grasp.

The first thing you should know about companies is that they are legal entities. Although they do not "exist" in the same corporeal sense that people exist, they have the same power as real people. They can own property, sue and be sued, carry on business, pay taxes and, generally, do all the legal things that flesh and blood people can do.

That is why, for example, if you treat the company's money like your own and pocket it directly instead of depositing it in the company account you are stealing the money from that company, even if you own all the shares of that company. Of course, in addition to the crime of theft you will likely have to answer to a few questions from Revenue Canada as they, too, take a dim view of that sort of thing, especially if you neglect to pay the taxes on it before it goes into your pocket.

The next thing you have to know is that all companies are essentially the same, regardless of size. The vast majority of companies all have certain basic features in common. They are owned by the shareholders, controlled by the directors and managed by the officers. This is true whether the company is a one-man operation with very few assets or a billion dollar multinational.

The officers of a corporation run the day-to-day business of the company. In British Columbia every corporation must have a minimum of a President and a Secretary, even though one person can fill both positions. The officers are hired by the board of directors and are employees of the company. Vice-President, Chief Executive Officer (CEO), Treasurer, Comptroller are other common names for officer positions.

The board of directors is where the real power lies for most companies. Officers, like the President, carry out the wishes, policies and orders of the board. While it is possible for shareholders to be granted authority to manage the company, in most companies the directors have the exclusive management power, usually free from interference from the shareholders.

The shareholders, of course, are the owners of the company. They reap the benefits, through dividends and increased share values, when the company is profitable. They take the financial beating, through stock price decreases or total loss of their investment (as in bankruptcy), when the company loses money. Their maximum loss is usually governed by the amount they had to pay for their shares.

Next on our whirlwind tour is the explanation of federal versus provincial companies. Provincial companies are incorporated under provincial law and do not "exist" beyond the provincial borders

although, of course, they can conduct business elsewhere, just as flesh and blood British Columbians can. Federal companies are incorporated federally and can carry on business throughout all of Canada as of right.

The final "basic" you need to know to round out the nickel tour of corporate law is the difference between public and private companies. Actually, the correct terms are reporting and non-reporting companies. Public companies are companies whose stocks are publicly traded, usually on a stock exchange (though not necessarily), while private companies are closely held and usually have less than 50 stockholders.

So now you know the basics. The next question is - do you care? What, after all, does this have to do with you? Hey, I don't know. My job was to get you to read to the end and for that I thank you. Now, if I could just get you to read a few of the ads, too, even my editor would appreciate it.