

Twomey | Jennings | Greene



( 5TH EDITION )

# Business Law

PRINCIPLES FOR TODAY'S  
COMMERCIAL ENVIRONMENT

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5th Edition

# BUSINESS LAW

## Principles for Today's Commercial Environment

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# Preface

Regardless of the day of the week, newspapers and magazines will have stories about law and business together. The dentists in North Carolina lost a challenge by the teeth whitening industry to the profession's rules prohibiting whitening except by licensed dentists. In 2015, BP, the international energy company, paid \$18 billion to settle all the state and federal claims related to the explosion of its Deepwater Horizon off-shore oil rig. The problems with mortgages and foreclosures have resulted in a new federal agency and significant revisions to the requirements for the formation of credit contracts. Securities laws have changed because buying shares over the Internet, so-called crowdfunding, has become an entrepreneurial trend.

There were more insider trading convictions in the past three years than in any other era of financial growth. And now those convictions are being challenged because the definition of what is inside information requires clarification.

SAC Capital was one of the companies that had a large number of former and current employees convicted or enter guilty pleas to insider trading, but yet SAC's CEO was not charged and the company paid civil fines related to the activities of its brokers, analysts, and advisers.

Who is responsible for crimes committed by companies? If a mining company CEO closely tracks production, can he be held criminally liable when the problems at the mine result in an explosion and deaths of the miners? As major corporations have continued to experience major criminal, legal, and ethical difficulties, we can see how important it is for business managers to understand the law and the foundations of ethics. When a manager has a void in knowledge on law and ethics, running a company can be tricky business. Budweiser and Corona learned the intricacies of antitrust law as they worked out the details of their proposed merger.

When an entrepreneur is struggling with the decision of whether to incorporate or create an LLC, or the shareholders of Disney are grappling with issues about their rights when their CEO makes a bad decision, the law is there. No business or manager can hope to succeed without an understanding of the laws and legal environment of business. Students in business must be prepared with both knowledge of the law and the skill of applying it in the business setting. We learn principles and application through interaction with examples and by working our way through dilemmas, issues, and problems. This 5th edition of *Business Law: Principles for Today's Commercial Environment* enhances the learning process while still providing a detailed and rigorous case approach.

## New to This Edition

### Enhanced Digital Content—*MindTap*<sup>TM</sup>

Our goal—is for the students to learn the material. With that singular goal in mind, we have created what we feel is an extremely useful tool for both instructors and students. *MindTap*<sup>TM</sup> is a fully online, highly personalized learning experience combining readings, multimedia, activities, and assessments into a singular Learning Path. *MindTap* guides students through their course with ease and engagement. Instructors can personalize the Learning Path by customizing Cengage Learning resources and adding their own content via apps that integrate into the *MindTap* framework seamlessly with Learning Management Systems.

We understand that business law instructors want to help students **Prepare** for class, **Engage** with the course concepts to reinforce learning, **Apply** these concepts in real-world scenarios, and use legal reasoning and critical thinking to **Analyze** business law content.

Each and every item in the Learning Path is assignable and gradable. This gives instructors the knowledge of class standings and concepts that may be difficult. Additionally, students gain knowledge about where they stand—both individually and compared to the highest performers in class.

Instructors may view a demo video and learn more about *MindTap*, at [www.cengage.com/mindtap](http://www.cengage.com/mindtap).

## Features of the Text

The features of this text make the business and law connection easy to understand and offer students clarity for grasping the often challenging complexities of law. The features are summarized in the following sections, which offer an overview of this edition.

### Learning Outcomes

Students will better see and understand the relationship between legal concepts and their application in real-life situations by using the chapter Learning Outcomes. These are featured at the end of each chapter—along with the Summary and new Key Terms list—in an all-encompassing “Make the Connection” section. The Learning Outcomes also encourage students to utilize the existing text pedagogy by serving as a direct reference point for selected “For Example” call-outs, case summaries, and feature boxes.

### Sports and Entertainment Law

Using pop culture, this feature teaches students about law and ethics in a way that is sure to engage them. What happens to the contract fees that Lance Armstrong earned from the U.S. Postal Service for its sponsorship of his races? What happens when sports figures have personal problems and the companies and products they endorse want to end that relationship? Can contracts be terminated because of public behavior? Was Heath Ledger’s will, one that was drawn up and executed before he had a child, still valid? What happens to the personal property that actor Robin Williams failed to specify a distribution for? Who gets his *Mork & Mindy* suspenders? The New Orleans Saints and their bounty compensation program present an interesting series of ethical questions in a feature in Chapter 3. Students have the chance to explore the law through these examples of sports figures’ and entertainers’ brushes with the law.

### Clarity

The writing style has been evolving and, once again, we have changed more passages that fell victim to the passive voice. The writing is clear and lively. The examples are student-friendly, and the discussions of law are grounded in the book’s strong connection to business. The principles of law are taught in the language and examples of business. Students can relate to the examples, which provide memorable illustrations of complex but critical legal concepts.

### CPA Helps

As always, the text provides coverage for all the legal topics covered on the CPA exam. Several topics have been eliminated from the content for the CPA exam as of June 2015.



However, the exam lags behind the content change, so the eliminated topics may continue to appear on the exam for 6 to 18 months. Below is the new business law/regulatory content for the CPA exam. The topics of property, bailments, insurance, and estates will be eliminated going forward with more emphasis on federal regulation, including in the areas of antitrust and employment law.

### ***Business Law (17%–21%)***

#### A. Agency

1. Formation and termination
2. Authority of agents and principals
3. Duties and liabilities of agents and principals

#### B. Contracts

1. Formation
2. Performance
3. Third-party assignments
4. Discharge, breach, and remedies

#### C. Uniform Commercial Code

1. Sales contracts
2. Negotiable instruments
3. Secured transactions
4. Documents of title and title transfer

#### D. Debtor-Creditor Relationships

1. Rights, duties, and liabilities of debtors, creditors, and guarantors
2. Bankruptcy and insolvency

#### E. Government Regulation of Business

1. Federal securities regulation
2. Other federal laws and regulations (antitrust, copyright, patents, money laundering, labor, employment, and ERISA)

#### F. Business Structure (Selection of a Business Entity)

1. Advantages, disadvantages, implications, and constraints
2. Formation, operation, and termination
3. Financial structure, capitalization, profit and loss allocation, and distributions
4. Rights, duties, legal obligations, and authority of owners and management

Business organizations, now a substantial portion of the exam, remain a focus of eight chapters with up-to-date coverage of Dodd-Frank and its impact on business forms and disclosures. This edition continues to feature sample CPA exam questions at the end of those chapters that include legal areas covered on the exam. This edition still contains the questions for the topics that will be eliminated because of the transition period between content adoption and exam adaptation. Answers for the odd-numbered CPA exam questions in each of the appropriate chapters are given in the Instructor's Manual along with explanations for the answers. This edition of the book also continues to use a CPA highlight icon to alert students to those areas that are particularly critical in preparing for the law portion of the CPA exam.

## Cases

Specially selected cases appear in abundance and are still at the core of this text. Most chapters include three to five cases, and they have been updated to feature the most current and newsworthy topics. Landmark decisions also appear, including several from the 2014–2015 U.S. Supreme Court term.

## e-Commerce and Cyberlaw

This feature covers e-mail privacy, Internet taxes, identity theft, contract formation on the Internet, e-commerce employment rules, electronic signatures, and more. Chapter 8, the criminal law chapter, includes greater detail on the new and evolving computer crimes. Chapter 9, the intellectual property chapter, features a section on Protection of Computer Software and Mask Works, covering copyright and patent protection of computer programs, restrictive licensing, semiconductor chip protection, and more. There are features in chapters throughout the book, such as an example in Chapter 2 about how social media is having an impact on jury selection because of the information lawyers can gather about potential jurors from these sources. The Edward Snowden issues are covered as both a cyber law and an ethical issue in Chapter 3. In Chapter 6, there is a discussion of net neutrality. Chapter 29 has a feature covering electronic presentment of instruments.

## Thinking Things Through

This feature is designed to help students apply the law they have learned from the chapter and cases to a hypothetical scenario or another case that varies slightly from the examples in the reading. With these problems built into the reading, students have the chance to really think through what they have just read and studied with regard to the law presented in that chapter. This feature can be used to promote classroom discussion or as an assignment for analysis. For example, in Chapter 29, students get to walk through a liability question when there are forgeries on a check to determine who ultimately bears the loss on a fraudulent check. In Chapter 4, students can think about whether flashing your headlights to warn oncoming drivers of a speed trap is legal. Is this a form of protected speech? Is it against the law to warn other drivers?

## Major Regulatory Reforms: USA Patriot Act, Dodd-Frank, and the JOBS Act

Businesses continue to be dramatically affected not only by laws at the federal level, but also by complex and intricate new federal regulatory schemes. Dodd-Frank has changed many things in many areas of the law from the behavior of analysts to the protection of consumers in mortgage and credit transactions. The provisions of the Affordable Health Care Act have twice been litigated to the level of the U.S. Supreme Court—cases that cover fundamental questions about our Constitution as well as the balance of state and federal power. The JOBS Act has made it easier for smaller companies to raise money by easing securities regulation requirements.

## Ethical Focus

In addition to Chapter 3, which is devoted exclusively to the current issues in business ethics, each chapter continues to provide students with an ethical dilemma related to that particular area of law. The Ethics & the Law feature presents problems in each area of law. Students will be able to analyze ethical issues and problems that are very real and

very challenging for anyone in business—for example, the issues involved in check cashing companies that take checks for a fee knowing that there are probably issues with those checks and then seek holder-in-due-course protection.

## Critical Thinking

The American Assembly of Collegiate Schools of Business (AACSB) mandate on critical thinking is addressed by this text. The Thinking Things Through feature asks students to analyze a problem that requires application of the law and examination of slight changes in factual patterns from examples in the text and the cases. For example, in the negotiable instruments chapters, students can look at a sample instrument in one problem and apply the requirements for negotiability to determine whether the instrument is indeed negotiable. In the Ethics & the Law feature, students must connect ethical thought with law and public policy and walk through the logic of application and results. End-of-chapter problems are, for the most part, real cases that summarize fact patterns and ask the students to find the applicable laws in the chapter and determine applicability and results. The fact patterns in the chapter problems are detailed and realistic and offer students the chance to test their mastery of the chapter concepts.

## For Additional Help in Teaching and Learning

For more detailed information about any of the following ancillaries, contact your local Cengage Learning Consultant or visit the *Business Law: Principles for Today's Commercial Environment* Web site.

### ***MindTap***

*MindTap*<sup>™</sup> is a fully online, highly personalized learning experience combining readings, multimedia, activities, and assessments into a singular Learning Path. Instructors can personalize the Learning Path by customizing Cengage Learning resources and adding their own content via apps that integrate into the *MindTap* framework seamlessly with Learning Management Systems. To view a demo video and learn more about *MindTap*, please visit [www.cengage.com/mindtap](http://www.cengage.com/mindtap).

### ***Instructor's Manual***

The Instructor's Manual is prepared by Marianne Jennings, one of the textbook authors. It provides instructor insights, chapter outlines, and teaching strategies for each chapter. Discussion points are provided for Thinking Things Through, Ethics & the Law vignettes, and for each case referenced in the new Learning Outcomes. Also included are answers to CPA questions. Download the Instructor's Manual at the instructor's companion site online.

### ***Cengage Learning Testing Powered by Cognero***

Cognero is a flexible online system that allows instructors to author, edit, and manage test bank content from multiple Cengage Learning solutions; create multiple test versions in an instant; and deliver tests from the instructor's LMS, classroom, or wherever the instructor desires. The test bank includes thousands of true/false, multiple choice, and case questions.

### ***Microsoft® PowerPoint® Lecture Review Slides***

PowerPoint slides are available for use by instructors for enhancing their lectures. Download these slides at the instructor's companion site online.

### ***Business Law Digital Video Library***

This dynamic online video library features more than 90 video clips that spark class discussion and clarify core legal principles. The library, recently updated with new videos, is organized into five series including classic business and modern business and e-commerce scenarios, straightforward lecture-style explanations of concepts for student review, and clips from many popular films. Access for students is free when bundled with a new textbook or can be purchased for an additional charge. For more information about the Digital Video Library, visit: [www.cengage.com/blaw/dvl](http://www.cengage.com/blaw/dvl).

### ***Cengage Learning Custom Solutions***

Whether you need print, digital, or hybrid course materials, Cengage Learning Custom Solutions can help you create your perfect learning solution. Draw from Cengage Learning's extensive library of texts and collections, add or create your own original work, and create customized media and technology to match your learning and course objectives. Our editorial team will work with you through each step, allowing you to concentrate on the most important thing—your students. Learn more about all our services at [www.cengage.com/custom](http://www.cengage.com/custom).

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