

5. Which of the following advantages of going public simultaneously implies a potential disadvantage of going public?

- a. Alters the difficulty associated with obtaining capital.
- b. Establishes a market value for the firm.
- c. Changes name recognition of the company.
- d. Facilitates stockholder diversification.
- e. Changes liquidity of the firm's stock.

6. The two principal advantages of holding companies are (1) that the holding company can control a great deal of assets with limited equity and (2) that the dividends received by the parent from the subsidiary are not taxed if the parent holds at least 50 percent of the subsidiary's stock.

- a. True
- b. False

7. Leveraged buyouts (LBOs), popularized in the 1980s, occur when a firm's managers decide to try and gain control of their publicly owned company by buying out existing shareholders using large amounts of borrowed money.

- a. True
- b. False

8. Even if a firm's cash flow projections indicate that it will soon be unable to meet scheduled interest payments on its debt, bankruptcy will not begin until the firm actually defaults on a scheduled payment.

- a. True
- b. False

9. Which of the following statements is most correct?

- a. Our bankruptcy laws were enacted in the 1800s, revised in the 1930s, and have remained unaltered since that time.
- b. Federal bankruptcy law deals only with corporate bankruptcies. Municipal and personal bankruptcy are governed solely by state laws.
- c. All bankruptcy petitions are filed by creditors seeking to protect their claims on firms in financial distress. Thus, all bankruptcy petitions are involuntary as viewed from the perspective of the firm's management.
- d. Chapters 11 and 7 are the most important bankruptcy chapters for financial management purposes. If a reorganization plan cannot be worked out under Chapter 11, then the company will be liquidated as prescribed in Chapter 7 of the Act.
- e. "Restructuring" a firm's debt can involve forgiving a certain portion of the debt but does not involve changing the debt's maturity or its contractual interest rate.

e. (5 points) Assume the Brigham's expected selling price is \$550, what is the IRR of this proposed acquisition?

3. (15 points) Below is the Notart Company's Balance Sheet. The firm is in Chapter 7 bankruptcy and is being liquidated. The firm's Trustee's are owed \$1,500,000. Given the below balance sheet, write out the amounts collected by each of the firm's creditors.

		Amount Collected			Amount Collected
CURRENT ASSETS	\$40.0	_____	ACCOUNTS PAYABLE	\$10.0	_____
NET FIXED ASSETS	5.0	_____	NOTES PAYABLE (BANKS)	4.0	_____
			ACCRUED WAGES	0.3	_____
			FEDERAL TAXES	0.5	_____
			STATE/ LOCAL TAXES	1.2	_____
			CURRENT LIABILITIES	\$16.0	
			FIRST MORTGAGE	\$ 2.0	_____
			SECOND MORTGAGE	0.5	_____
			DEBENTURES	5.0	_____
			TOTAL LONG-TERM DEBT	\$ 7.5	
			PREFERRED STOCK	\$ 1.0	_____
			COMMON STOCK	13.0	_____
			PAID-IN CAPITAL	2.0	_____
			RETAINED EARNINGS	5.5	_____
			TOTAL EQUITY	\$21.5	
TOTAL ASSETS	\$45.0		TOTAL CLAIMS	\$45.0	

THE LIQUIDATION SALES RESULTED IN THE FOLLOWING PROCEEDS:

FROM SALE OF CURRENT ASSETS	\$14,000,000
FROM SALE OF FIXED ASSETS	\$5,500,000
TOTAL RECEIPTS	\$19,500,000

