

Instructions:

- 1) The part of the exam is closed book and closed notes. No scrap paper is allowed; use the back of the exam if necessary.
- 2) Look over the entire exam before starting. The best strategy is generally to “cherry pick”. In other words, solve the easiest (and/or most familiar) problems first. This will save time (and energy) that can be expended on the more difficult problems.
- 3) Partial points are based on readily observable evidence that you know at least part of the solution concept. The more evidence presented (and the clearer the evidence), the better the chance for partial points. In other words, **SHOW ALL WORK!**
- 4) If you have additional time remaining, give your work one last check.
- 5) True/False questions are worth 2 points. Multiple choice questions are worth 3 points. Short answer questions, discussion questions and problems are worth the number of points listed in the question.

1. Which of the following is the best description of the overall goal of the financial manager in a corporation where shares are publicly traded?
 - a. Maximize earnings per share
 - b. Maximize operating income
 - c. Maximize operating cash flows
 - d. Maximize the value of outstanding shares
 - e. Maximize the number of outstanding shares

2. What would be the priority of the claims as to the distribution of assets in a liquidation under Chapter 7 of the Bankruptcy Act?
 - 1) Trustees' costs to administer and operate the firm.
 - 2) Common stockholders.
 - 3) General, or unsecured, creditors.
 - 4) Secured creditors who have claim to the proceeds from the sale of a specific property pledged for a mortgage.
 - 5) Taxes due to federal and state governments.

a. 1, 4, 3, 5, 2 b. 5, 4, 1, 3, 2 c. 4, 1, 5, 3, 2 d. 5, 1, 4, 2, 3 e. 1, 5, 4, 3, 2

3. (6 points) Several years ago, a friend told you she was “considering an informal workout, but that that the board was upset meaning she had to either hope for a white knight or hope her golden parachute did not fail.” In non-financial terms, describe briefly what your friend was saying.

4. (4 points) More recently, the same friend told you, she “considering either a road show or a spinoff, because it increased her breakup value.” In non-financial terms, describe briefly what your friend was saying.

5. The basic doctrine of fairness under bankruptcy provisions states that claims must be recognized in the order of their legal and contractual priority.
- True
 - False
6. The primary test of feasibility in a reorganization is whether the firm's fixed charges after reorganization can be covered by its projected cash flows.
- True
 - False
7. Which of the following statements is most correct?
- Tax considerations often play a part in mergers. If one firm has excess cash, purchasing another firm exposes the purchasing firm to additional taxes. Thus, firms with excess cash rarely undertake mergers.
 - The smaller the synergistic benefits of a particular merger, the greater the incentive to bargain in negotiations, and the higher the probability that the merger will be completed.
 - Since mergers are frequently financed by debt more than equity, financial economies which imply a lower cost of debt or greater debt capacity are rarely a relevant rationale for mergers.
 - Managers who purchase other firms often assert that the new combined firm will enjoy benefits from diversification such as more stable earnings. However, since shareholders are free to diversify their own holdings at lower cost, such a rationale is generally not a valid motive for publicly held firms.
8. Chapter 7 of the Bankruptcy Act is designed to do which of the following?
- Provide safeguards against the withdrawal of assets by the owners of the bankrupt firm.
 - Establish the rules of reorganization for firms with projected cash flows that eventually will be sufficient to meet debt payments.
 - Allow insolvent debtors to discharge all of their obligations and to start over unhampered by a burden of prior debt.
 - Answers a and b above.
 - Answers a and c above.
9. Synergistic merger effects can arise from a number of different sources including operating economies of scale, financial economies, and increased managerial efficiency.
- True
 - False
10. Flotation costs under a best-efforts offering are typically less for a given new equity issue than the costs associated with an underwritten offering, and the corporation is more certain of getting the needed funds under a best-efforts arrangement. This is why best efforts deals are most common.
- True
 - False
11. Large, well-known public companies can reduce the time required to register and issue securities by using a(n)
- Shelf registration.
 - Subchapter S registration.
 - Underwriting syndicate.
 - Secondary market registration.
 - "Red herring" registration.
12. When new common stock is offered for sale to the public through investment bankers, the investment bankers may provide potential investors with information contained in a statement called the
- Indenture.
 - Trust agreement.
 - "Red herring" prospectus.
 - Proxy.
 - Security agreement.

13. Which of the following statements concerning common stock and the investment banking process is false?
- The preemptive right gives each existing common stockholder the right to purchase his or her proportionate share of a new stock issue.
 - If a firm sells 1,000,000 new shares of Class B stock, the transaction occurs in the primary market.
 - Listing a large firm's stock is often considered to be beneficial to stockholders because the increases in liquidity and status probably outweigh the additional costs to the firm.
 - Stockholders have the right to elect the firm's directors, who in turn select the officers who manage the business. If stockholders are dissatisfied with management's performance, an outside group may ask the stockholders to vote for it in an effort to take control of the business. This action is called a tender offer.
 - A large issue of new stock could cause the stock price to fall. This loss is called "market pressure," and it is treated as a flotation cost because it is a cost associated with the new issue.
14. If the demand curve for a firm's stock is relatively flat, the firm will have a more difficult time raising a large amount of new equity funds for expansion than would be true if this demand curve were steeper.
- True
 - False
15. Most defensive mergers occur as a result of managers' actions to maximize shareholder's wealth.
- True
 - False
16. The discount rate used to discount projected merger cash flows should be the cost of capital of the new consolidated firm because it incorporates the actual capital structure of the new firm.
- True
 - False
17. Which of the following are given as reasons for the high level of merger activity in the U.S. during the 1980s?
- Synergistic benefits arising from mergers.
 - Reduction in competition resulting from mergers.
 - Attempts to stabilize earnings by diversifying.
 - All of the above.
 - Both a and c above.
18. Which of the following actions assist managers in defending against a hostile takeover?
- Eliminating a poison pill provision.
 - Attempts to stabilize earnings by diversifying.
 - Establishing a super-majority provision in the company's bylaws which raises the percentage of the board of directors that must approve an acquisition from 50 percent to 75 percent.
 - All of the answers above are correct.
 - None of the answers above is correct.

Exam I Spring 2003 FINC 4532 Your Name _____
YOU HAVE 75 MINUTES TO COMPLETE BOTH PARTS OF THIS EXAM

Instructions:

- 1) The part of the exam is open book and open notes.
- 2) Point values are listed with the question.
- 3) Look over the entire exam before starting. The best strategy is generally to “cherry pick”. In other words, solve the easiest (and/or most familiar) problems first. This will save time (and energy) that can be expended on the more difficult problems.
- 4) Partial points are based on readily observable evidence that you know at least part of the solution concept. The more evidence presented (and the clearer the evidence), the better the chance for partial points. In other words, **SHOW ALL WORK!**
- 5) If you have additional time remaining, give your work one last check.

1. (12 points) Assume today is May 30, 2002. On May 1, 2002, Williams Brothers (WG) stock was \$19 per share and the firm had 20,000,000 shares outstanding. On May 30, 2002 you read the following statement, “On May 14, 2002, we completed a public offering of our common shares at \$17.75 per share; 4,356,750 shares were sold by us and 985,000 shares were sold by certain selling stockholders. We received \$71.9 million in net proceeds, which were used to repay indebtedness under our prior credit facility and for working capital and general corporate purposes.” Assume that administrative costs were \$200,000. On May 14, the stock price declined to \$17.75 and has remained at that level until today.

a. (2 points) What was the market value of Williams stock on May 1, 2002.

b. (5 points) If this was an underwritten stock offering, what was the price the underwriter paid for each share of stock?

c. (3 points) What is the market value of Williams stock as of May 30, 2002?

d. (2 points) Williams issuing the above stock is an example of a _____
_____ offering.

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 \$2,500,000. 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	17.0	_____	NOTES PAYABLE (BANKS)	4.0	_____
			PROPERTY TAXES PAYABLE	13.0	
			ACCRUED WAGES	0.3	_____
			FEDERAL TAXES	0.5	_____
			STATE/ LOCAL TAXES	1.2	_____
			CURRENT LIABILITIES	\$29.0	
			FIRST MORTGAGE	\$ 2.0	_____
			SECOND MORTGAGE	0.5	_____
			DEBENTURES	4.0	_____
			TOTAL LONG-TERM DEBTS	\$ 6.5	
			PREFERRED STOCK	\$ 1.0	_____
			COMMON STOCK	13.0	_____
			PAID-IN CAPITAL	2.0	_____
			RETAINED EARNINGS	5.5	_____
			TOTAL EQUITY	\$21.5	
TOTAL ASSETS	\$57.0		TOTAL CLAIMS	\$57.0	

THE LIQUIDATION SALES RESULTED IN THE FOLLOWING PROCEEDS:

FROM SALE OF CURRENT ASSETS	\$19,000,000
FROM SALE OF FIXED ASSETS	\$1,500,000
TOTAL RECEIPTS	\$20,500,000

