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 4 points. Short answer questions, discussion questions and problems are worth the number of points listed in the question.

1. According to the text, the primary goal for a firm’s financial managers is to maximize shareholder’s wealth.
   a. True b. False

2. Large firms usually get most of their new common equity internally, that is, from retained earnings.
   a. True b. False

3. __________ is an offer to purchase shares of stock at a stated price from shareholders who are willing to sell shares at that price.
   a. A NAC b. A merger
c. A horizontal merger d. A tender offer
e. None of the above

4. The Securities and Exchange Commission’s Rule 415 is commonly known as a competitive offering.
   a. True b. False

5. In a corporate acquisition, the acquiree gains control of another firm.
   a. True b. False

6. Which of the following statements is false?
   a. Liquidations need not follow absolute priority.
b. In a prepackaged bankruptcy, the debtor and creditors negotiate a plan of reorganization and then file it along with the bankruptcy petition.
c. A reorganization under Chapter 11 has advantages and disadvantages compared to an out-of-court restructuring.
d. Liquidation is preferred over reorganization when the value of the firm’s assets exceeds the going concern value of the firm.
e. A prepackaged bankruptcy attempts to combine the advantages-and avoid the disadvantages-of the bankruptcy process and out-of-court restructurings.

7. (6 points) List (you do not need to describe) 4 common causes of financial distress?
8. You are the CFO of a publicly traded dot.com company that is in financial difficulty, but does retain some valuable assets. You receive a hostile tender offer to buy your company; you have no golden parachute. You have only a short time to react to the bid. To defend against the takeover, you receive the following advice. Your commercial banker recommends your use a Dual Class Recapitalization. Your investment banker recommends a Garter Snake defense. Your mother recommends a Pac-Man defense. Your brother in law recommends a staggered Election of Directors. Your old college professor recommends an Initial Public Offering. Your accountant recommends a proxy contest. Your friend recommends a cramdown defense. As a smart CFO, you realize the best advice is coming from your:
   a. your commercial banker.  
   b. your investment banker.  
   c. your mother.  
   d. your brother in law.  
   e. your old college professor.  
   f. your accountant.  
   g. your friend.

9. Which of the following is not an advantage of going public?
   a. Going public makes securities worth more because of their decreased liquidity.  
   b. Going public increase the firm's equity financing flexibility.  
   c. Going public makes it easier for a firm to acquire other firms in exchange for shares of its stock.  
   d. Going public makes the common stock negotiable and creates a visible market value.

10. Which of the following statements is false?
   a. Chapter 11 offers a debtor the opportunity to freeze its debts while it attempts to negotiate a reorganization plan with creditors.  
   b. Holdouts are holders of outstanding securities who desire to exchange their securities for new ones.  
   c. The guiding principle of Chapter 11 reorganizations is that a debtor should be given the opportunity to negotiate with its creditors.  
   d. none of the above is false

11. Bankruptcy is a legal process for liquidating, reorganizing the claims on, or transferring to its creditors, a firm's assets to settle its debt obligations under bankruptcy court supervision.
   a. True  
   b. False

12. (12 points) Name and briefly describe the three basic ways of accomplishing a corporate acquisition.
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. Specific Lighting Company has 15 million shares authorized, 13 million shares issued, and 300,000
   Treasury shares. The firm offered additional shares of its common stock to its current shareholders based
   on one new share for eight rights, plus a subscription price of $15 per new share during the 16-day
   subscription period. At the time, shares were trading at $16.25. Each shareholder receives one right per
   two shares owned, thus someone owning 1000 shares would received 500 rights. Shortly after the ex-date,
   the market price of the firm’s common stock is $16.
   a. (5 points) What is the market value of each right given this stock price?

   b. (4 points) Assuming all of the rights are exercised, what is the market Value of the firm’s stock
      after the rights offering.

2. (4 points) Ace Homebuilding and Brace Homebuilding will merge. Ace has a total market value
   of $50M (M = million), and Brace has a total market value of $75M. Their merger will lead to
   operating efficiencies producing a present value (NPV) savings of $10M. The combined
   companies would be worth $135M. The merger would entail expenses amounting to $5M. What is
   the net advantage to merging (NAM)?

3) (4 points) Firm A intends to acquire Firm B. The acquisition will cost Firm A $10M. Firm A
   plans to install new management, "fix" the company, and sell it at the end of 5 years. The
   projected incremental after-tax cash flow stream that Firm A expects to realize from the
   acquisition (which reflects the anticipated operating improvements) is for years 1 through 5 as
   follows: $1M, $2M, $3M, $4M, and $5M. In addition, the projected after-tax proceeds from
   selling Firm B at the end of 5 years amount to $20M. Calculate the internal rate of return for the
   acquisition.
4. (15 points) Below is the Wegeobe 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. All taxes and accrued wages have priority over secured debt. The Debentures are subordinate to the Notes Payable.

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Amount Collected</th>
<th>Liability Category</th>
<th>Amount Collected</th>
</tr>
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<tr>
<td>CURRENT ASSETS</td>
<td>$40.0</td>
<td>ACCOUNTS PAYABLE</td>
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<tr>
<td>NET FIXED ASSETS</td>
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<td>NOTES PAYABLE (BANKS)</td>
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<tr>
<td></td>
<td></td>
<td>ACCRUED WAGES</td>
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<tr>
<td></td>
<td></td>
<td>FEDERAL TAXES</td>
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<td></td>
<td></td>
<td>STATE/ LOCAL TAXES</td>
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<tr>
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<td></td>
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<tr>
<td></td>
<td></td>
<td>DEBENTURES</td>
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<td></td>
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<td>TOTAL LONG-TERM DEBT</td>
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<td>RETAINED EARNINGS</td>
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<td></td>
<td></td>
<td>TOTAL CLAIMS</td>
<td>$57.0</td>
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</table>

THE LIQUIDATION SALES RESULTED IN THE FOLLOWING PROCEEDS:

- FROM SALE OF CURRENT ASSETS $18,000,000
- FROM SALE OF FIXED ASSETS $3,800,000
- TOTAL RECEIPTS $21,800,000
5. Fill in the Blanks (12 points).

Wesley company acquires Clark company in a stock-for-stock deal.

<table>
<thead>
<tr>
<th></th>
<th># Shares</th>
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<th>EPS</th>
<th>Stock Price</th>
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<td>______</td>
<td>40</td>
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<tr>
<td>Clark</td>
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<tr>
<td>Combined Company</td>
<td>______</td>
<td>_____</td>
<td>______</td>
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</table>

6. Ferrellgas and Blue Rhino Announce Merger Agreement
Monday February 9, 8:09 am ET
Blue Rhino to be Acquired for $17 Per Share

LIBERTY, Mo., and WINSTON-SALEM, N.C., Feb. 9 /PRNewswire-FirstCall/ -- Ferrellgas Partners, L.P. (NYSE: FGP - News) and Blue Rhino Corporation (Nasdaq: RINO - News) announced today Ferrellgas will acquire substantially all of the assets of Blue Rhino from a subsidiary of Ferrell Companies, Inc., the parent company of its general partner, which has entered into a merger agreement to acquire all of the outstanding stock of Blue Rhino in an all-cash transaction. Terms of the merger agreement call for the payment of $17 in cash for each share of Blue Rhino stock outstanding on the date of the closing of the transaction. Prior to the announcement, Blue Rhino was selling for 13.73 per share with 215,964,000 shares outstanding.

a. (2 points) What is the merger premium?

b. (2 points) How much is Ferrellgas paying for Blue Rhino.

c. (2 points) Prior to the announcement of the merger, Ferrellfass was sellijng for $24.09 and immediately after the announcement was selling for $24.80. Briefly comment on whether this is or is not a positive NPV project.

7) (5 points) The firm you work for is trying to decide to file a Chapter 7 or a Chapter 11 bankruptcy. If it chooses to reorganize, the following future cash flows are expected: Year 1=$4, Year 2=$5, Year 3=$6, Year 4=$7, Year 8=$8.

The appropriate discount rate is 14%. The projected after-tax liquidation value of the firm’s assets is $200, whether we liquidate the firm now, or reorganize the firm now and liquidate the firm in 5 years. 1 point for your answer, and 4 points for showing why your answer is correct.