

9. What is a z-score?

10. Which of the following is the optimal managerial contract?

- a. Contracting costs are \$5, Monitoring Costs are \$15, and Misbehavior Costs are \$41.
- b. Contracting costs are \$40, Monitoring Costs are \$15, and Misbehavior Costs are \$5.
- c. Contracting costs are \$15, Monitoring Costs are \$27, and Misbehavior Costs are \$11.
- d. Contracting costs are \$15, Monitoring Costs are \$15, and Misbehavior Costs are \$17.
- e. Contracting costs are \$13, Monitoring Costs are \$5, and Misbehavior Costs are \$22.

11. List three forms of business synergy that might be used to justify a merger?

12. Financial synergy is more likely than business synergy to be a good reason to merger two firms.

- a. True
- b. False

13. The disadvantage of a proxy contest relative to a tender offer is that few succeed.

- a. True
- b. False

14. Corporate financial distress is when a firm has significant trouble paying its debts as the come due.

- a. True
- b. False

15. A firm can declare bankruptcy even if it has no problem paying its creditors as its debts become due.

- a. True
- b. False

16. Which of the following is false?

- a. The basic premise of Chapter 11 is that debtors and creditors should negotiate to achieve a consensual plan of reorganization given the going-concern value of the reorganized debtor exceeds its liquidation value.
- b. The purpose of the cramdown provision is to facilitate the confirmation of a proposed plan when dissenting classes are refusing to accept a viable plan.
- c. A prepackaged bankruptcy attempt is most likely to succeed when there is only one class of creditors that will be disadvantaged by the plan.
- d. Holdouts are holders of outstanding securities who refuse to exchange their securities for new ones.
- e. All of the above are true statements.

Exam I Spring 2007 FINC 4532 Your Name _____
YOU HAVE 90 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. Carrollton Utilities currently has 4,000 shares with a market price of \$12.50. They announce a rights offering of 500 shares with a subscription price of \$8 per new share during the 16-day subscription period.

a. (2.5 points) What is the market value of the firm before the right's offering?

b. (2.5 points) How many rights will be needed to purchase a new share?

c. (2.5 points) What is the market value of each right given this stock price?

d. (2.5 points) Assuming all of the rights are exercised, and no information was conveyed by the rights announcement, what is the expected stock price after the rights offering?

2. (8 points) Astral Telecom and Bright Wiring will merge. Astral has a total market value (VA) of \$285M (M = million), and Bright has a total market value (VB) of \$210M. Their merger will lead to operating efficiencies and will produce a synergistic effect of \$15M. Answer the following questions.

(a) Ignore expenses and the payment of a premium. What is the total market value of the merged firms?

(b) Ignore the payment of a premium. If the NAM is -\$31, and expenses to complete the merger are \$5, what premium is being paid?

3. (6 points) Jennifer is considering either a loan or to buy shares from Promis Holdings. She will invest \$150,000. She estimates monitoring costs of \$7,000 per year, and has a required pre-tax return of 9%.

a. What must be the yield on her bonds to give her promised return?

b. If we assume the firm is zero growth, what level of dividends must she be paid annually?

4. Fill in the Blanks (12 points).

The Peta Company acquires the Nofer company in a stock-for-stock deal.

	# Shares	P/E	EPS	Stock Price
Peta	14,000	42	\$.19	_____
Nofer	100,000	17	\$1.30	_____
Combined Company	_____	_____	_____	_____

4. (18 points) Below is the Webegone Company's Balance Sheet. The firm is being liquidated in Chapter 7 bankruptcy. The firm's Trustee's are owed \$1.0. Given the below balance sheet, fill in the blanks with the amounts collected by each of the firm's creditors. All taxes and accrued wages have priority over secured debt. The Accounts Payable is secured by Inventory. The Mortgages are secured by Fixed Assets. All other debt is unsecured.

CURRENT ASSETS	\$17.0	ACCOUNTS PAYABLE	\$20.0	_____
NET FIXED ASSETS	28.8	NOTES PAYABLE (BANKS)	9.5	_____
		ACCRUED WAGES	.3	_____
		FEDERAL TAXES	1.5	_____
		STATE/ LOCAL TAXES	1.2	_____
		CURRENT LIABILITIES	\$31.3	
		FIRST MORTGAGE	\$ 12.0	_____
		SECOND MORTGAGE	11.5	_____
		DEBENTURES	15.0	_____
		TOTAL LONG-TERM DEBTS	38.5	
		PREFERRED STOCK	\$ 8.0	_____
		COMMON STOCK	65.0	_____
		PAID-IN CAPITAL	2.0	_____
		RETAINED EARNINGS	-99.0	_____
		TOTAL EQUITY	\$-24	
TOTAL ASSETS	\$45.8	TOTAL CLAIMS	\$45.8	
THE LIQUIDATION SALES RESULTED IN THE FOLLOWING PROCEEDS:				
		FROM SALE OF CURRENT ASSETS OTHER THAN INVENTORY	\$9.5	
		FROM SALE OF INVENTORY	\$7.5	
		FROM SALE OF FIXED ASSETS	\$9.9	
		TOTAL RECEIPTS	\$26.9	