

Exam 1 Spring 2004 Answers from Amber

Closed Book Section

1. a
2. A
3. d
4. B, 415 is a shelf offering
5. b
6. a
7. Poor Management, Unwise Expansion, Intense competition, Excessive debt (additional options= Massive litigation, Unfavorable contracts)
8. C is correct, these terms are from the Merger and Acquisition chapter, except for Garter Snake which is a madeup term and cramdown which relates to bankruptcy. Since you have little time, your only real defense is to counter attack, which means pac-man.
9. a
10. b
11. a
12. 1. Merger (acquirer absorbs the acquiree & emerges as the surviving firm) or Consolidation (a new business entity is created from the combination)
 2. Acquisition of Stock (a tender offer is made directly to stockholders, however by purchasing the residual claim, by definition you own the assets and therefore assume the obligation of debt)
 3. Acquisition of Assets (acquirer purchases only the assets therefore liabilities are not assumed)

Open Book Section

1. a. 1.17 , should be $(16.25-15)/(8+1)=\$1.388$
 b. $(13 + 1.625) * 16$ is 234 million

2. \$5M

3. IRR =34.45

| 4. Assets | Amount Collected | Liabilities | Amount Collected |
|-----------|------------------|---------------------|--------------------------|
| Current | 18M | A/P | 6.149 |
| N. Fixed | 3.8M | N/P | $4.0=((4*61.4\%)+1.544)$ |
| | | AccWages | 1.3 |
| | | F.Taxes | 1.5 |
| | | S/L Taxes | 1.2 |
| | | 1 st Mtg | 2.0 |
| | | 2 nd Mtg | 2.23 |
| | | Debent. | $.92=((4*61.4\%)-1.544)$ |

Equity

P.S ; C.S; Pd in Cap; R.E. = ALL ZERO

5. Wesley EPS= 1.25 N.I. = 5000 F.Value = 160,000
 Clark EPS = 2.50 N.I. = 25,000 F.Value= 150,000
 Combined #shs = 7,750 P/E = 10.33 EPS = 3.87 Stock Price = 40
6. a. $((17-13.73)/13.73)=23.8\%$
 b. \$3,671,388,000
 c. Positive NPV b/c change in price/share increase is greater then the transaction cost of merger.

7. Liquidate now b/c NPV of reorganization is less than FV of investing the \$200 at 14%