

**THE FOLLOWING QUESTIONS ARE FROM OLD EXAMINATIONS  
AND ARE REPRESENTATIVE OF PAST EXAMINATION QUESTIONS  
IN CORPORATE FINANCE**

I  
[Page limit: four pages  
50% of your grade]

TO ANSWER THIS QUESTION, REFER TO  
THE ATTACHED FINANCIAL INFORMATION

**ADDITIONAL FACTS**

Since December 31, 2003, there have been substantial changes in the corporate lives of both Consolidated and Sailcraft.

On December 31, 2003, the balance sheet of Consolidated indicates that Consolidated owned "Marketable Securities," at a recorded cost of \$1,700,000. These securities consisted of 76,000 shares of the common stock of Sailcraft. From about July 1, 2003, the management of Consolidated had been considering increasing its ownership in Sailcraft. On January 10, 2004, Consolidated acted on this by making a tender offer to all the Sailcraft shareholders (both common and preferred). On January 9, 2003, the day prior to the initial tender offer, the common stock of Sailcraft was selling for \$22 per share. Accordingly, Consolidated offered the shareholders \$24.50 per share. Preferred (which is non-voting stock) was selling for \$92 per share. Accordingly, Consolidated offered \$94 per share.

The response of Sailcraft's management was immediate. They urged the common shareholders not to accept the offer. Because of their resistance, Consolidated was ultimately required to pay \$29 per share for the Sailcraft common stock, but Consolidated was able to obtain an additional 77,000 shares of the common stock of Sailcraft. This gave Consolidated 51% ownership of the common stock of Sailcraft. Consolidated was able to purchase 51% of the Sailcraft preferred for \$94 per share.

With Consolidated's control firmly established, Sailcraft, on February 25, 2004, announced a new "Five-year Plan." It stated that for the next five years no dividends would be paid on Sailcraft common stock. As to the preferred dividends, Sailcraft would pay them regularly. The retained earnings were to be used to improve the quality of the Sailcraft products.

On March 30, 2004, the Board of Directors of Consolidated decided that it would

continue its program of expansion. Further, It decided that it would implement this program by purchasing new assets with its own stock. Therefore, on April 15, Consolidated placed a "buy order" with a broker for 5,000 shares of its common stock. The purchases were made by the broker in 6 separate transactions.

On May 15, 2004, Consolidated utilized 2,500 of these shares to purchase a patent right from Mr. Jones. This patent, which covered a new fiberglass formula for manufacturing skills, had been developed by Mr. Jones at a cost of about \$10,000.

On June 15, the Board of Directors of both Sailcraft and Consolidated passed resolutions recommending that Sailcraft sell all its assets to Consolidated, in exchange for stocks of Consolidated. The following exchange ratio was recommended:

- a. Each share of Sailcraft's \$5 par value common stock would receive three shares of Consolidated's \$5 par value common stock;
- b. Each share of Sailcraft's 5% non-cumulative preferred stock would receive one share of the 6% cumulative preferred stock of Consolidated.

On July 31, 2004, a special meeting of the Sailcraft shareholders was called to vote on the proposal. At that meeting the Chairman of the Board of Directors of Sailcraft recommended the amalgamation. He emphasized that the Board had made an impartial and unbiased study of the proposal and found it advantageous to Sailcraft. At that meeting, there was substantial opposition to the amalgamation, among both the common and preferred shareholders. The preferred shareholders were upset about the exchange ratio, especially in light of the fact that they had a liquidation preference of \$105 and they had not been paid any dividends in two years.

In spite of the opposition, the sale was approved by 72% of the common shares of Sailcraft.

What relief is available to:

1. Begley, a common shareholder of Sailcraft;
2. Mrs. Couch, a preferred shareholder of Sailcraft;
3. Ms. Davis, holder of a Mortgage Bond of Sailcraft?

II

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Assume that, on July 31, 2004, the equity accounts of Sailcraft and Consolidated

