

**FINAL EXAMINATION  
BUSINESS ASSOCIATIONS  
PROFESSOR G. FLINT**

**ESSAY  
PLEASE READ CAREFULLY**

**ALL ANSWERS ARE TO BE WRITTEN ON THE BLUE BOOKS  
PROVIDED WITH THIS EXAM**

There are four questions (time and percent indicated). The Time for completing the examination is four hours.

1. This examination is "open book". You may use your casebook, statutory supplement, and class notes. Use of calculators and cleansed laptops is permitted.
2. Be sure to answer the specific question that is asked. Information supplied relating to some unasked question will not increase your score and consumes your time needed to answer the asked questions.
3. If additional facts are necessary to resolve an issue, specify what additional facts you believe to be necessary and why they are significant. You may not make an assumption that changes or contradicts the stated facts. Assume you are in the State of Texas and Texas law applies, unless otherwise clearly denoted.
4. Quality, not quantity, is desired. Think through and briefly outline your answer before you begin to write.
5. Write legibly. Be sure to formulate your answers in complete sentences and paragraphs with proper grammar. Failure to do so will result in an appropriately lower score.
6. Do not seek an interpretation of language in the question from anyone. If you sense ambiguity or typographical error, correct the shortcoming by shaping the question in a reasonable way and by recording your editorial correction in your answer.

**Under the Honor Code, when you turn in this examination, you affirm that you have neither given, received, nor obtained aid in connection with this examination, nor have you known of any one so doing. If you cannot make this affirmation, you shall note such fact on your examination and must immediately advise the Dean of the reason therefore.**

I. (25 %--1 hour)

Isaac Horatio Flint and Arunah Hubbell years ago formed a partnership to operate several retail drug stores in San Antonio. The partnership had become unwieldy since, as the business aged, Isaac and Arunah admitted their interested adult children, all Texas residents, into the partnership.

Sons Chauncy Smith Hubbell and Ezra Roswell Flint wanted to run the business now and hoped to get rich by expanding the business into other Texas cities. This expansion would require much borrowing and losses in the early years of expansion. Consequently, Chauncy and Ezra would prefer a business form that would limit their liability in the event the business was unable to pay off the expected loans, yet keep the partnership taxation.

Isaac and Arunah desired to retire and did not want to participate in the potential fortunes to be generated by the proposed expansion. Nevertheless, Isaac and Arunah were reluctant to part with their hefty salaries. So Isaac and Arunah were willing to part with their partnership equity interests provided they could have some other interest that paid them 15% on their former partnership equity interests.

The other children admitted as partners, Martin Hubbell, Seth Hubbell, Albert Flint, and John Grant Flint, did not desire to participate in the business any longer since they had acquired other business interests. Consequently, they wanted a cash-out.

The balance sheet of the Flint-Hubbell partnership follows:

Assets (1000s)		Liabilities (1000s)	
Receivables	750	Payables	800
Inventory	250	Bank Loan	1500
Building	1500	Total Liabilities	2300
Equipment	500	Equity	
Trademark	100	Isaac	250
		Arunah	250
		Chauncy	50
		Ezra	50
		Andrew	50
		John	50
		Martin	50
		Seth	50
		Total Equity	800
Total Assets	3100	Total Equity & Liabilities	3100

Arunah Hubbell has come into your associate's office at the Silk Stocking Law Firm, P.C. Arunah wants to know what legally needs to be done to carry out this restructuring. What is your advice? Be sure to include your support.

II. (25%--1 hour)

Rather than get bank loans for the contemplated expansion of their business, now named Flint-Hubbell, Inc., Chauncy Smith Hubbell and Ezra Roswell Flint decided in favor of venture capital. Joseph Erwin, a Canadian citizen, has been eager to invest in the enterprise of Chauncy and Ezra. Joseph Erwin has proposed that (1) he receive preferred stock that will receive the first \$2 million of dividends paid before any amounts are paid to Arunah Hubbell and Isaac Horatio Flint, (2) that his preferred stock have the right to vote one director on the board, and (3) the board of Flint-Hubbell, Inc., be limited to three persons.

Joseph Erwin has come into your associate's office at the Blue Blood Law Firm, P.C. Joseph wants to know what legally needs to be done to carry

out this financing and to insure it operates in accordance with his stated desires. What is your advice? Be sure to include your support.

III. (25 %--1 hour)

Otha Albert Gasaway has been tracking the progress of Flint-Hubbell, Inc., and has decided he wants to purchase the company. Otha is a stock investor and has his wholly owned investment vehicle, Gasaway Investment, Inc. Chauncy Smith Hubbell and Ezra Roswell Flint are eager to sell. Flint-Hubbell, Inc., has paid no dividends so Joseph Erwin is reluctant to sell unless he obtains \$2 million more than the par value for his preferred stock. Arunah Hubbell and Issac Horatio Flint have been living handsomely in San Miguel de Allende, Mexico, despite the absence of dividends for two years, and also are opposed to the sale unless they get present value of their expected dividends over a 20 year period. The balance sheet of Flint-Hubbell, Inc., follows:

Assets (1000s)		Liabilities (1000s)	
Receivables	1750	Payables	800
Inventory	1250	Bank Loan	6500
Building	3500	Total Liabilities	7300
Equipment	1500	Equity	
		Common Stock	10
		Pref. Ser. A	.5
		Pref. Ser. B	100
		Surplus	589.5
		Total Equity	700
Total Assets	8000	Total Equity & Liabilities	8000

Otha Albert Gasaway has come into your associate's office at Rapem, & Leavem, P.C. Otha wants to know the best way to carry out this acquisition. What is your advice? Be sure to include your support.

IV. (25 %--1 hour)

After Otha Albert Gasaway acquired Flint-Hubbell, Inc., he renamed the business Gasaway Drug, Inc. Otha placed his good buddy Nicholas Pelletier on the board. Otha then took the company public. Nicholas Pelletier now is concerned about his director liability for a public company. Nicholas Pelletier has come into your associate's office at Suem & Stickem, P.C. Nicholas wants to know what he needs to do to minimize his director liability. What is your advice? Be sure to include your support.