

FINAL EXAMINATION  
BUSINESS ASSOCIATIONS  
PROFESSOR G. FLINT

ESSAY  
PLEASE READ CAREFULLY

ALL ANSWERS ARE TO BE WRITTEN ON THE BLUE BOOKS PROVIDED WITH THIS EXAMINATION.

There are four questions of equal value (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 classnotes. Use of calculators and laptops are 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 addition facts you believe to be necessary and why they are significant. You may not make an assumption that changes or contradicts the stated facts.
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 so do will result in an appropriately lower score.
6. Do not seek an interpretation of language in the questions 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 corrections 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 therefor.**

I.

[25%--60 minutes]

Arunah Hubbell, a lawyer with a few years experience, who wants to be a partner in Baker, Sweetman, & Smith, LLP, a litigation firm in Waco, Texas. Arunah Hubbell, an associate in the firm, has worked out a few of the bargaining points. Joseph Baker is retiring, so Arunah Hubbell will be buying his interest. The price is \$5,000. Arunah Hubbell has obtained a loan commitment from John Meigs National Bank for \$4,000. The loan commitment mentions taking a lien on certain partnership assets to secure the loan, namely the library. Arunah Hubbell has done some firm management work in the last year for the firm, namely he has handled all the firms billing and collections, and expects to request pay for this for the remaining \$1,000. Moses Smith, one of the named partners, has expressed reservations about Arunah Hubbell's legal abilities and has suggested strongly that he serve another year as an associate. There is no written partnership agreement for the firm. The firm's balance sheet as of June 30, 2000, the date being used for the sale, is as follows:

Assets		Liabilities	
Cash	\$5,000	Bank loan	\$70,000
Receivables	40,000		
Equipment	15,000	Equity	
Building	25,000	Baker	5,000
Leg. Mal. Ins.	10,000	Sweetman	15,000
Goodwill	10,000	Smith	15,000
Total Assets	\$105,000	Total Liab. & Eq.	\$105,000

Arunah Hubbell has come into your associate's office at the Silk Stocking Law Firm, P.C. Arunah Hubbell wants you to handle the negotiations from here and to prepare the documents. What is your advice? Provide support.

II.

[25%--60 minutes]

Otha Gasaway wants to sell interests in legal clinics in a business enterprise operating in the cities of Dallas, Houston, Austin, and San Antonio, Texas. Otha Gasaway has already determined some aspects of the deal. Each Clinic in each city will be managed by one of the principle shareholders. This shareholder will be resident in that city. Otha Gasaway will be handling the office in San Antonio and will make all major decisions, including those for the other local offices. Otha Gasaway intends to hire fresh graduates from the lower rankings in law school to provide the services, since they probably can be hired cheaply. For this reason Otha Gasaway wants to operate

as a limited liability company. Otha Gasaway has already committed to hire James Madison Rogers, an accountant, as financial officer to handle billing and collections. James Maddison Rogers also will be providing most of the financing of the enterprise from his \$100,000 savings. James Madison Rogers believes that the local offices will not need much capital to operate as long as they collect the legal bills quickly, providing funds for the payroll and office expenses. Otha Gasaway has also lined up experienced lawyers, Kidd Turner and Joseph Moon, to manage the Dallas and Austin offices, respectively. Otha Gasaway is intending to call all the lawyers listed in the John Lynch's legal directory as residing in Houston with at least five years experience in litigation in order to man the Houston office.

Otha Gasaway has come into your associate's office at the Blue Blood Law Firm, P.C. Otha Gasaway wants you to handle the final negotiations and to prepare the documents. What is your advice? Provide support.

III.

[25%--60 minutes]

William Henry Hatton has been operating Hatton Drug Co., Inc., for the last 30 years. Over the years William Henry Hatton, who owns 10,000 shares, sold shares in Hatton Drug Co., Inc., to various employees. Their interests now number 51 shareholders, all of which have 100 shares except John Queen, a trusted elderly employee who has 1000 shares. William Henry Hatton has brought into the business as shareholders his daughter Mary Ann Hatton and his son Wiley Hatton, both as major shareholders with 2000 shares each. Mary Ann Hatton and Wiley Hatton have become expert in managing the corporation. So William Henry Hatton wants to retire by converting his ownership interest into preferred stock that pays 7% annually. John Queen also wants preferred stock. Mary Ann Hatton and Wiley Hatton desire to retain their common stock and also to eliminate the numerous shareholders. The balance sheet as of June 30, 2000, is as follows:

Assets		Liabilities	
Cash	\$5,000	Bank loan	\$115,000
Receivables	40,000		
Inventory	100,000		
Equipment	55,000	Equity	
Building	125,000	Common	20,000
Goodwill	10,000	Ret. Earn.	200,000
Total Assets	\$335,000	Total Liab. & Eq.	\$335,000

William Henry Hatton has come into your associate's office at the MegaBucks Law Firm, P.C. William Henry Hatton wants your advice on how to carry out this plan and prepare the documentation. What is your advice? Provide support.

IV.

[25%--60 minutes]

Joseph Irwin founded Irwin Incorporated, a solar panel manufacturer, five years ago. Joseph Irwin presently controls 60% of the voting power in the corporation. Joseph Irwin has been approached by George Lee about taking his company public. Joseph Irwin likes the idea of going public and the opportunities it would provide his corporation. But he fears that he would lose control to the public or that some other investor-raider might come along and take over his company and terminate his job.

Joseph Irwin has come into your office at Readem & Weap, P.C. Joseph Irwin wants you to devise a corporate structure that would insure his retention of control and yet not jeopardize the public offering. What is your advice and its reasoning?