

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 (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 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.

[37.5%--1 ½ hours]

Roswell Flint is a tax attorney in Temple, Texas, with numerous rich doctors as clients. These clients need a tax shelter. Roswell Flint has devised a cattle feeding operation to provide the necessary income tax deductions for these clients. Roswell Flint's plan is to have each doctor purchase 20 calves for placement on a feed lot recently purchased by Roswell Flint. The total cost to each doctor would be \$90,000. Roswell Flint has 20 such doctor clients. Under this plan Roswell Flint's friend, John Hartt, a stockyard operator, will enter into a management contract with each doctor to feed the cattle and otherwise handle all aspects of raising the cattle since the doctors do not have any idea how to raise and feed cattle. Under the management contract, John Hartt will also be responsible for selling of the cattle when they mature in a subsequent year, thereby making a profit and recovering the funds expended this year producing the tax deductions.

Roswell Flint has entered your associate's office at The Blue Blood Law Firm, P.C. Roswell Flint is concerned about how he can retain control of these cattle feeding operations. Roswell Flint wants to be the boss and does not want any of the doctors interfering with the operational decisions made by John Hartt. Roswell Flint is also concerned about his liability if something goes wrong and the cattle die. Explain your recommendations as to how Roswell Flint should structure this deal and what needs to be done to accomplish it. Be sure to provide support.

II.

[25 %--1 hour]

Marion Gasaway is President, and majority shareholder with 70%, of Marion Gasaway, Inc., a private company. Marion Gasaway recently attended a seminar for presidents of public companies and became aware of the problem of a rich outsider purchasing the shares of his company's shareholders. Marion Gasaway has entered your associate's office at The Silk Stocking Law Firm, P.C. Marion Gasaway is considering taking his company public next year when he expects the market to turn up. Marion Gasaway wants advice on what he can do now to help his company get ready for the public offering. Marion Gasaway's main concern is that he wants to retain control of his company and keep his high-paying job. Prepare your response. Be sure to provide support.

III.
[25 %--1 hour]

Arunah Hubbell is President of Arunah Hubbell, Inc. The balance sheet of Arunah Hubbell, Inc. appears below.

ASSETS (in 1000's)		LIABILITIES (in 1000's)	
Cash	1000	Notes	250
Land	500	Shareholder Notes	1500
Equipment	500		
Accumulated Deprec.	<u>(250)</u>	EQUITY	
	250	Stated Capital	100
Goodwill	<u>250</u>	Retained Earnings	<u>150</u>
			<u>250</u>
	TOTAL 2000	TOTAL	2000

The land presently has a fair market value of \$750,000. The equipment presently has a fair market value of \$350,000.

Arunah Hubbell has entered your associate's office at Chargem & Billem, P.C. Ruth Marie Smith, his wife, has recently developed cancer. Treatment for Ruth Marie Smith at Joseph Baker Hospital in Houston costs \$200,000. So Arunah Hubbell wants to declare a dividend of \$250,000 from Arunah Hubbell, Inc. Arunah Hubbell presently owns 80 % of Arunah Hubbell, Inc.

Explain your recommendation as to how Arunah Hubbell can withdraw \$250,000 from Arunah Hubbell, Inc. Be sure to include your support.

IV.
[12.5 % --1/2 hour]

- A. The Draper Voshell Corporation's articles are plain vanilla, with nothing with respect to how to vote the shares. There are 1,000,000 shares outstanding. The bylaws provide for 9 directors, elected annually. Andrew Melvin, a maverick shareholder, has gotten the backing from other rebel shareholders. Andrew Melvin's group has 600,000 shares. How many directors can they elect? What procedure should they use in casting their votes?
- B. The Stephen Jewell Corporation is about to merge with the Francis Burpee Corporation. The Stephen Jewell Corporation has potential in the eyes of Bateson