

FINAL EXAMINATION
SECURITIES REGULATION
MR. FLINT

Essay--3 pages

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 two hours.

1. This examination is "open book." You may use your casebook, statutory supplement, and classnotes. Use of calculators 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.
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.

III.

[25%--30 minutes]

Your advice has proven to be so expert that Arunah Hubbell now wants to issue and sell \$10,000,000 worth of common stock of Solar King to the public to provide for plant expansion and working capital. Again Arunah Hubbell has hired you, still an associate in The Bluestocking Law Firm struggling for recognition by the partners, to handle the matter. You begin working on Solar King, Inc.'s registration statement on Form S-1 covering the proposed issue of common stock. You have sent out a questionnaire to the officers for information. One item refers to a description of contractual relations between Solar King and members of the officer's immediate family.

This item has upset Arunah Hubbell. He does not want to disclose the following matter. The last several years, Ruth Hubbell, Arunah's wife, has worked for the Waco Advertising Agency managing its account with Solar King. Ruth Hubbell now has the expertise to handle the advertising herself and so this year established the Hubbell Advertising Agency. Hubbell Advertising Agency's main client is Solar King and Solar King pays generally \$200,000 in advertising fees each year.

Davis Flint has marched into your office to determine whether this tied-bit needs to be disclosed and what are the consequences of not disclosing it. What is your advice and its reasoning.

IV.

[25%--30 minutes]

The initial public offering of Solar King has proved to be successful. Arunah Hubbell has not kept notes of the various times that you have advised him as to the consequences of going public under the securities laws. So he has decided to have you attend the next board meeting to explain to the board the securities law consequences of going public. Explain the substance of your talk.

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I.
[25%--30 minutes]

Texas Solar King, Inc., ("Solar King"), a closely-held company, desires to acquire one of its closely-held distributors, Centex Plumbing, Inc. ("Centex"). Both companies operate in Waco, Texas. Solar King operates by selling solar panels to distributors, who install them for the customers. The deal is being negotiated by John Gilmore, Financial Vice President of Solar King, who, despite a conviction three years ago for filing fraudulent statements with the Securities and Exchange Commission ("SEC"), is an expert financial wizard. Arunah Hubbell, the President and Chief Executive Officer of Solar King, estimates that the acquisition will require cash of \$6 million. He proposes raising this cash by selling Solar King stock to a group of local investors that he personally knows on the following basis. Each member of the group will receive Solar King common stock for cash and a guarantee at the First National Bank of Waco of Solar King borrowings from that bank in an amount of five times the cash. So the investors will put up \$1 million in cash and guarantee \$5 million. The group consists of nineteen Waco businessmen and lawyers in your firm, both partners and associates.

Arunah Hubbell has entered your associate's office at The Bluestocking Law Firm for advice as to the least expensive course of action. Explain to him how you would structure this transaction to comply with the securities laws and his concern.

II.
[25%--30 minutes]

Your handling of the sale of securities to the Waco investors was expert. However, three years later Davis Flint, a senior partner in your law firm and secretary of Solar King, needs to raise cash to send his eldest daughter to Austin College in Sherman, Texas. The only asset he has that is uninterested is the stock in Solar King that he bought in the sale you handled. He has noticed on the obverse side of his certificate is the following legend:

"The shares represented by this certificate may not be sold or transferred without an opinion from the counsel to Solar King that such sale or transfer will not violate federal or state securities laws."

Davis Flint has come into your associate's office to inquire as to what he needs to do in order to sell some of the shares in Solar King to his brother-in-law, John Hartt, the owner of Waco Compress Company. Hartt for several years has wanted an ownership interest in Solar King and, when he heard of Davis Flint's predicament, he offered to buy 30,000 of Davis Flint's shares for \$30,000. Explain to Davis Flint how you would structure this transaction to comply with the securities laws.