**1- Pierre Imports recently issued two types of bonds. The first issue consisted of 10-year straight debt with a 10 percent annual coupon. The second issue consisted of 10-year bonds with a 9 percent annual coupon and attached warrants. Both issues sold at their $1,000 par values. The company's stock is currently selling for $24.50 per share.**

**a. Calculate the implied value of the warrants attached to each bond.**

**b. Discuss the advantages to the investor of purchasing bonds with warrants instead of straight bonds?**

**c. Discuss 2-3 advantages to the company of issuing a bond with warrants instead of straight bonds?**

**d. What will happen to the value of the bond with warrants if the company's stock price increases? Why?**

**e. What will likely happen to the value of the straight bond if the company's stock price increases? Why?**

**2.- Epoty Corporation is evaluating whether to lease or purchase needed equipment at a cost of $10,000. If the equipment is leased, the lease would not have to be capitalized. The company's balance sheet prior to the acquisition of the equipment is as follows.**

**a. Calculate the company's current debt ratio?**

**Equipment cost $10,000**

 **Current Balance Sheet**

|  |  |  |  |
| --- | --- | --- | --- |
| **Current assets** | **$50,000**  | **Debt** | **$35,000**  |
| **Net Fixed assets** |  **40,000**  | **Equity** |  **55,000**  |
| **Total assets** | **$90,000**  | **Total claims** | **$90,000**  |
|  |  |  |  |

**b. Calculate the company's debt ratio if it purchases the equipment.**

**c. Calculate the company's debt ratio if it leases the equipment?**

**d. Will the company's ROA and ROE ratios be affected by its decision to lease or purchase? Why or why not?**

**e. What factors should the company consider in coming to its decision other than net advantage to leasing? Why?**