

THOMSON ONE | Business School Edition

- 24-15.** On November 18, 2005, SBC Communications, Inc., completed its acquisition of AT&T Corporation. The combined company was named AT&T Inc. (ticker symbol, T). Examine the 19-page 8-K report filed on November 18, 2005. How many shares of AT&T Inc. were exchanged for each share of AT&T Corporation? What was the total number of shares issued to the “old” AT&T shareholders? At the time of the merger, what percentage of the “new” AT&T was owned by “old” AT&T shareholders? Did “old” AT&T shareholders receive any additional compensation? Based on the closing stock price on November 17, 2005, what was the estimated value of the merger?

MINI-CASE: MERGERS, CORPORATE CONTROL, AND CORPORATE GOVERNANCE

Jackson Enterprises (JE) is offering a 25% takeover premium to Michael Studios, Inc. (MSI) for the firm’s 2 million outstanding shares, which are currently trading for a pre-offer price of \$20 per share.

The balance sheet for MSI is:

Assets		Liabilities	
Current	\$15,000,000	Current	\$ 7,500,000
Fixed	<u>45,000,000</u>	Long-term	<u>25,000,000</u>
Total	\$60,000,000	Total	\$32,500,000
		Owner’s equity	<u>27,500,000</u>
		Total liabilities and equity	\$60,000,000

The market value of MSI’s fixed assets is \$60,000,000.

The sales (in millions) for the industry by company are:

	Sales
ABC	\$89
CWC	66
DEF	35
JE	45
KOJ	42
MSI	18
SEE	76

1. Determine the amount Jackson Enterprises is willing to pay in terms of goodwill.
2. If JE’s shares are currently trading at \$62.43, then how many shares should JE offer for every share of MSI?
3. Assuming that MSI will be treated as a separate reporting subsidiary following the merger, develop the balance sheet for the subsidiary.
4. Calculate the Herfindahl–Hirschman Index for the industry both before and after the proposed merger.

- 25-15.** Calculate Altman's Z score for Great Atlantic & Pacific Company (ticker symbol, GAP) for the years 2004–2007. What is the trend in Altman's Z score over this time period? How do the Z scores for Great Atlantic & Pacific compare to IndyMac's?

MINI-CASE: BANKRUPTCY AND FINANCIAL DISTRESS

Flanan Photography Studios, Inc. (FPS) is preparing for a court-ordered bankruptcy and has issued the following preliquidation financial statements.

Flanan Photography Studios, Inc., Balance Sheet as of December 31, 2009

Assets		Liabilities and Stockholders' Equity	
Cash	\$ 800,000	Accounts payable	\$ 2,600,000
Marketable securities	24,000	Notes payable	2,200,000
Accounts receivable	3,500,000	Accrued wages	700,000
Inventories	4,000,000	Unpaid employee benefits	385,000
Prepaid expenses	<u>1,000,000</u>	Taxes payable	<u>250,000</u>
Total current assets	\$ 9,324,000	Total current liabilities	\$ 6,135,000
Land	\$10,000,000	First mortgage	\$ 8,500,000
Net plant	28,000,000	Second mortgage	27,000,000
Net equipment	<u>32,000,000</u>	Unsecured bonds	<u>28,000,000</u>
Total fixed assets	<u>\$70,000,000</u>	Total long-term debt	\$63,500,000
Total	<u>\$79,324,000</u>	Preferred stock (15,000 shares)	\$ 1,500,000
		Common stock (1,500,000 shares)	7,500,000
		Retained earnings	<u>689,000</u>
		Total stockholders' equity	\$ 9,689,000
		Total	<u>\$79,324,000</u>

Flanan Photography Studios, Inc., Income Statement for the Year Ending December 31, 2009

Sales	\$14,420,000
Cost of goods sold	-7,210,000
Selling and administrative expenses	<u>-787,000</u>
Earnings before interest and taxes	\$ 6,423,000
Interest expense	<u>-5,715,000</u>
Earnings before taxes	\$ 708,000
Taxes (30%)	<u>-283,200</u>
Net income	<u>\$ 424,800</u>

TruValue Trustees Services (TTS) has been appointed to oversee the sale and disbursement of funds from the liquidation and will charge \$450,000 for the service. TTS can obtain \$7,250,000 from the sale of FPS's current assets and \$49,850,000 from the sale of fixed assets. Accrued wages represent wages of \$2,000 or less per employee, and the wages were earned within 90 days of filing bankruptcy. Unpaid employee benefits represent an amount that was due within the 180-day period preceding the bankruptcy filing. The first and second mortgages are secured by the firm's total fixed assets. The firm's stock is currently trading for \$3.25 per share.

1. Calculate the amount to be received by each claimant.
2. Calculate and interpret the firm's Z score.