

**FACULTY OF LAW**

**FINAL EXAMINATION – APRIL 30, 2005**

LAW 613: Y5 CORPORATE SECURITIES (ANDREW J. CHAMBERLAIN)

Time Allotted: THREE (3) hours

Code Number: DO NOT ENTER YOUR NAME ON ANY ANSWER SHEETS. A list will be circulated and your name is to be entered opposite a number on that sheet. That number will be your code number FOR THIS EXAMINATION ONLY and should be entered in the space provided above. This is to ensure anonymity during marking.

- Special Instructions:
1. This examination question paper contains eight (8) questions on four (4) pages (including this page). Check to ensure it is complete before starting.
  2. Answer ALL questions noting alternatives where offered.
  3. Questions are not of equal value. Apportion your time accordingly.
  4. This is an OPEN BOOK examination. During the course of the examination students shall be permitted to bring in and use the 2004 Thomson Carswell edition of the Alberta Securities Act and Regulation and the Supplemental Materials prepared for the course. Other versions of the Alberta Securities Act and Regulations may be permitted with prior approval of the instructor. No notes and no other material or texts will be allowed in the examination room.
  5. Cell phones, pagers, beepers and related equipment are strictly forbidden. These items must be turned off and stowed. Except by permission of the instructor, which will not routinely be given, lap top computers are not allowed in examinations.
  6. Adhere to the time limitation imposed on this examination strictly. Failure to stop writing at the end of the examination may lead to a deduction of grades or a failure to accept the examination paper.
  7. To avoid disturbing your classmates, please do not leave the room during the last 15 minutes of the examination.
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**VALUE****QUESTION**

25 marks  
(56 minutes)

1. Bill Johnston has established a furniture manufacturing business, through an Alberta Corporation (Wooden Comforts Ltd.), which is a private issuer (Bill is the only shareholder). The business has been operating for 5 years and is going well and Bill would like to purchase additional equipment for his facility. Bill estimates that the expansion will cost about \$1 million (taking into account the cost of the equipment, installation and set up, additional staffing and other related costs). Bill would like to raise the money the company needs by selling shares from the treasury of the company, and comes to you for your advice and assistance. Bill has a friend who raised money for his company through an offering memorandum, and another who raised money through a prospectus, and is considering both options. Provide Bill with a comparative analysis of an offering memorandum and a prospectus financing.

3 marks  
(7 minutes)

2. Bill has been talking to equipment suppliers about purchasing some new equipment for his furniture manufacturing business. One of the suppliers has said that they are prepared to sell about \$300,000 of equipment to Bill's company and to take shares of the company in lieu of cash in consideration for the equipment. Bill would like to do that deal but does not want to file a prospectus just to complete that deal. What do you advise Bill?

11 marks  
(25 minutes)

3. Bill has decided to file a prospectus in order to raise money for his business and to take his company (Wooden Comforts Ltd.) public. He anticipates that his company will qualify for a Tier 1 listing on the TSX Venture Exchange. Before the prospectus financing he is the only shareholder of the company and after the offering is completed he will continue to own about 70% of the outstanding shares of the company. Bill is the president of the company and will maintain that position after the offering. Once the company is public Bill would like to be able to sell a few of his shares (if the price is right) to raise some extra money for himself. He asks you to advise him on any restrictions that he may have on his ability to sell his shares. What is your advice?

10 marks  
(22 minutes)

4. As part of the process of taking Wooden Comforts Ltd. public, its president and owner, Bill Johnston, is attempting to put together a board of directors appropriate for a public company. His auditor has suggested that when putting the board together he needs to consider being able to have a properly constituted audit committee. Bill asks you what he needs to do to have a properly constituted audit committee and if there are any factors, such as the company's size, that will affect that consideration. What do you tell Bill?

10 marks  
(22 minutes)

5. Wooden Comforts Ltd. has completed its prospectus offering and its shares are now listed on the TSX Venture Exchange. The company is negotiating the purchase of another furniture manufacturer (Buildem Inc.) that has assets and revenues that are about one-half of Wooden Comforts Ltd.'s. The company's president, Bill Johnston asks your legal advice on the disclosure obligations that Wooden Comforts Ltd. will have if it proceeds with this possible acquisition. What is your advice?

9 marks  
(20 minutes)

6. The Big Block Furniture Company Ltd. ("Big Block") is a large furniture retailer. Bill Johnston is the president of a publicly traded Alberta corporation, Wooden Comforts Ltd., whose shares most recently traded at a price of \$1.45 per share. Bill sees a newspaper advertisement that announces that Big Block is offering to buy up to all the shares of Wooden Comforts Ltd. for a cash consideration of \$1.50 per share. Bill, who personally owns about 70% of the outstanding shares of Wooden Comforts Ltd., believes that the fair value of the company at present is about \$1.75 per share and, given its potential for growth he personally would not sell his shares for less than \$2.00 per share. Bill comes to you for legal advice on if he or Wooden Comforts Ltd. need to do anything in response to the advertisement. He is also concerned about being forced to sell out his shares at that price if all the remaining (30%) shareholders accepted the offer. What do you tell Bill?

8 marks  
(18 minutes)

7. Wooden Comforts Ltd. is holding its first Annual General Meeting of Shareholders since becoming a reporting issuer. The company's president, Bill Johnston, has been in contact with the company's transfer agent to make arrangements for the meeting to be held, but he does not understand one of the questions that the transfer agent

put to him, which was whether or not the company wanted to mail proxy material directly to NOBOs. Explain to Bill what the question means and what decision he has to make.

4 marks  
(9 minutes)

8. The Board of Directors of Wooden Comforts Ltd. has decided that they would like to change the company's auditors from the small local accounting firm it has used for a number of years to a larger national firm, as they think that it is more appropriate for the company's image as a public company. They are proposing to ask shareholders to approve the change at the upcoming Annual General Meeting of Shareholders. What disclosure issues arise from this proposal?

TOTAL:  
80 Marks  
(179 minutes)

**END OF THE EXAMINATION**