Instructions

This is a take-home examination. You may use any materials provided on the course website, the casebook and other study aids. You **may not** work on the exam with any other person (in the class or otherwise). **By submitting this exam you certify that it is completely your own work.**

Each question has maximum page limits. Your answers must be type written. **If you exceed the page limit, I will disregard your entire answer and you will get no credit.** When pages are referred to in the limit they must be single spaced on one side of the page and not use a font smaller than 12 point and margins no smaller than 1 inch on all sides.

Make sure to label which question and part you are answering.

**Question 1 (30%): Limit Four (4) Pages**

Please see the additional material I have just made available on the website – RMA Financial Companies.pdf. This file contains the RMA report for the Travelex peer group. Using this comparative information and the financial information contained in the Form F-4 of Travelex, explain to your client why you think purchasing £20 Million principal amount of Travelex Senior Notes (described in the Form F-4) looks like a safe (good) or a risky (bad) decision. Be as specific as possible in explaining why you think Travelex Senior Notes look like a reasonably good or bad credit risk. Also include in your recommendation a valuation of Travelex's business using the methods discussed in this course. Demonstrate how you arrived at this valuation. State the assumptions you make. Here are some assumptions you may choose to use (note I have formed these based on some actual statistics but they do not represent real historical facts). At the time of the valuation most commercial banks have a beta of 2.2. Moneygram (a company which provides retail money transmission services similar to Western Union) has a beta of 1.12.
**Question 2 (30%) Limit Four (4) pages**

After the Travelex Senior Notes were issued, Travelex decided to buy the Thomas Cook Global and Financial Services Business for £440 million. Among other things, Thomas Cook issues travelers checks. The way this business works is that customers buy (directly or through agents) travelers checks and pay the face amount of the check plus a service charge. When the customer wants to cash the check or use it to pay for goods or services, they bring it either to a Thomas Cook location or any bank or merchant that accepts Visa or Mastercard (depending on which kind of travelers check they purchased) and countersign the travelers check. At the time of the acquisition, Thomas Cook has approximately £1 billion of travelers checks outstanding (i.e. there are previously purchased travelers checks which have not yet been redeemed). Mastercard and Visa have informed Travelex that their rules require Travelex to obtain a guaranty by a AAA rated bank guarantying the payment of properly presented travelers checks. Barclay’s Bank has agreed to issue the bank guaranty for a fee of 1% per annum on the actual amount of all checks outstanding. Travelex and Thomas Cook will both have to agree to reimburse Barclay’s for any amounts it is required to pay under the guaranty, which everyone expects to be nothing since if Travelex pays all checks when properly used the guaranty will never be called. After all Thomas Cook has the money received from Travelers Checks sales invested in safe investments, bank deposits and US and UK Treasury bonds. Thus, how could Thomas Cook ever default?

Travelex’s CFO has asked you if Travelex acquires Thomas Cook and Thomas Cook becomes a “restricted subsidiary” will the obligation to pay travelers checks upon their presentment or the obligation to reimburse Barclay’s Bank for any drawn on the guaranty constitute the incurrence of indebtedness under the Senior Notes. Even with the new revenue brought in by Thomas Cook, the combined company will not have enough EBITDA to incur £1 billion of indebtedness under the coverage ratio test. This is why he is asking if it even constitutes an incurrence of debt. What do you tell him? What do you recommend he should do? Explain your analysis.

**Question 3 (40% equally divided among the three parts) See Page Limits on each part**

For this question which is in several parts refer to the Amended and Restated Articles of Incorporation of FNX Limited. Assume that the Stockholders Agreement referred to therein has been validly terminated and is of no further force and effect. Assume that there are presently 2,662,500 shares of Series A Preferred Stock outstanding, 15,542,430 shares of Series B Preferred Stock outstanding and 20,000,000 shares of Common Stock outstanding (and this number has not changed since the Original Issue Date of the Series A and B Preferred Stock).

**Part 1 (Page Limit 3 pages)** You represent a client who is considering a purchase of 25% of the Series B Preferred Stock from a current holder. The client is an investment fund.
constitutional documents of the fund state the purpose of the fund is to “invest in common stock of technology companies” and the “fund is prohibited from investing in securities, regardless of their form, which do not in substance constitute common stock.” Do you think an investment in the Series B Preferred Stock is consistent with this requirement or in violation of it?

**Part 2 (Page Limit 3 pages).** FNX has been in desperate need of cash. It went to the holders of the Series B Preferred Stock and asked them to invest more in the company (by buying new shares). The Series B Preferred stockholders refused. The Company then decided to issue 2,000,000 shares of Common Stock to Farid Naib (the founder and holder of the 20,000,000 of the Common Stock) for $0.20 a piece or $400,000 in the aggregate. There are and have not been any options or convertible securities outstanding. The Conversion Price of the Series B Preferred Stock has never been required to be adjusted in the past, in accordance with its terms. The Series B Shareholders are threatening to sue the Company for a declaratory judgment on the adjustment of the Conversion Price as there is a dispute about how it should be calculated. Unfortunately the corporate records for the sale to Naib are poorly drafted. It is not clear whether the sale to Naib occurred on March 9 or on September 3 of 2005. Does it make a difference whether the sales occurred in March or September? What should the adjusted conversion price be (assuming sales alternatively in March or September?

**Part 3 (Page Limit 3 pages).** The Company, Naib and the Series B Stockholders resolved their dispute by having Naib lend money to the Company so that it could redeem all of the Series B Preferred Stock at an agreed liquidation price. Several years have gone by now and the Company has never paid any dividends on any shares of Series A Preferred Stock or Common Stock. It has repaid Naib’s loan (of the money to redeem the Series B Preferred Stock) plus interest equal to 40% per annum paid until the loan was repaid. The Company has just declared a dividend of $0.40 per share on the Common Stock but not on the Series A Preferred Stock. The Series A Preferred Stock are unhappy that they have never received a dividend and now one is being paid on the common. Do they have any good legal claim they can make that their rights have been violated?