

MID-TERM EXAMINATION

1. This is a take-home examination. It will be collected at the beginning of class on Monday, November 1, 2004.

2. You may consult any materials you wish, except that you may not consult anyone else. The standard GSB rules regarding the honor code apply. Please do not discuss the exam with anyone until the examination is turned in.

3. This examination consists of three (3) pages. Please make sure that you have all of the pages.

4. Place an identifier—your student number or name—on each page of your answer.

5. There are five (5) questions.

6. You should read the instructions, the entire exam and all of the questions before answering any of the questions.

7. Exam answers are to be word processed or typed. Please begin your answer to each question on a new page.

8. Your total answer to all questions combined must not exceed 1500 words. At the end of your exam, please provide a word count. I will perform a proportionate statistical adjustment to the raw weighted score to take into account text in excess of the 1500-word limit. You may distribute the 1500 words across the five questions as you see fit, but do take into account that questions will be graded on a scale of 0 to 10 for a total of 50 points on the exam. Given that, my advice is to invest roughly 300 words per answer for each question.

9. Deal with all issues raised even though you believe that the disposition of any one of them is controlling. If there are ambiguities in the facts, construe the ambiguity so as to make the question more interesting. If additional facts other than those set forth in a problem are needed to resolve an issue, state what those facts are and why they are needed.

1. Fox has announced a new TV show starting in January. The show, *My Big Fat Obnoxious Professor*, takes place in a university classroom. The professor behaves obnoxiously in class each day as students strive for high marks. ABC, having learned of the show, has rushed to air a new show, *The Curmudgeon*. It too takes place in a college classroom. The professor mistreats the students in class each week and generally behaves badly. At the end of each show, the professor chooses one student to leave the class, announcing "You're dropped."

Question: Fox believes that ABC has impermissibly borrowed from its show. Discuss ABC's conduct in the light of *INS v. AP*.

2. Jane Jones wrote a script for a movie that she hoped Disney would see fit to make. She sent the script to Disney with a cover letter containing the following paragraph:

"I understand that you are a busy company and receive many unsolicited manuscripts, so I do not expect a response from you. But, so that there is no confusion, please understand that I am offering to Disney through this letter the right to make a movie of this script. By making such a movie, you are agreeing that you will pay me \$100,000 for the script."

An executive at Disney reviewed the script and concluded that it would not result in a major motion picture. But the executive passed on the script to her counterpart at ABC Pictures, Inc., a Disney subsidiary. ABC Pictures decided to make a movie for TV from the script and broadcast it on ABC.

Question: Evaluate the contracts issues posed by this scenario. Suppose that ABC Pictures had sent a check for \$100,000 to Jones after completing the movie. Would that change the situation?

3. "Stocks are like salad dressing. Before the feds imposed nutrition labeling requirements, makers of low-fat dressing said on their labels that the dressing was low fat and did so voluntarily. Makers of high-fat dressing said nothing, as to claim to be low-fat would have exposed them to lawsuits for fraud, so silence was the best policy. Smart consumers would notice the difference between the low-fat and high-fat labels and would appropriately infer that silence wasn't golden: silence meant the dressing was high-fat, since if it were low-fat, the label would have said so. The fed labeling requirement added nothing. So too for stocks: what we saw in salad

dressing maps nicely to the stock market, and the fed disclosures are similarly redundant, other than making it possible for lawyers to get fat checks for bringing frivolous suits, sticking investors with nothing more than discount coupons to buy products that they don't want."

Question: Evaluate.

4. "One of the key lessons of MCI/Worldcom is that boards of directors will all too frequently defer to corporate insiders, especially as to compensation for CEOs and other high-ranking officers. The Breeden report suggests solving this problem by limiting the number of insiders on the board, but that has its own problems. A better approach is to embrace the new possibilities of Internet voting to create direct democracy by shareholders. Shareholders should vote directly on compensation packages rather than rely on board rubberstamps."

Question: Evaluate.

5. Dull, Inc., a corporation, has 100 outstanding shares of common stock and owes Bank \$100. Dull's sole asset is a simple project (call it project A). The project has one of two outcomes. 50% of the time the project results in cash of \$100; the other 50% of the time the project yields \$120. Dull is considering a project swap with Exciting, Inc. Exciting has a project (call it project B) as to which 50% of the time the project results in cash of \$60, 50% of the time the project throws off \$160. After either project runs, the only thing that remains is whatever cash was thrown off by the project.

Question: Is Dull solvent when it has project A? If it swaps project A for project B? How will the shareholders of Dull evaluate undertaking project A? Swapping for project B? How will Bank do so? What are Bank's legal options if it is concerned about the potential project swap?