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Examination No. __________

521 Business Association II
Semester II, 2001-02

UNM School of Law
Final Examination
Three Credits

Professor Theodore Parnall
Saturday, May 5, 2001
Wednesday, May 9, 2001
9:00 a.m. to 12:00 noon

INSTRUCTIONS
(Three Hours)

This examination consists of Part I: 25 true-false questions (25 points), Part II: 12 multiple-choice questions (25 points), and Part III, one essay question (50 points). Parts I and II are "closed book" and you are to take the first two parts of the examination in the assigned exam room. Please follow the instructions as to marking your answer very carefully. If you have any questions, please see Pat Trainor immediately. Be sure to mark your examination number on each page of Part I and Part II of the exam. You may, if you think it is absolutely necessary, explain your response to questions in the first two parts. Please keep this to a minimum. Turn in Parts I and II when you have completed them. Do not use a separate blue book for these first two parts.

When you have completed Parts I and II, please return them to Room 3117 at which time you will pick up Part III.

Part III of the examination (50 points), which you will be given upon turning in the first two parts to the office, consists of an essay question. You may use your notes, textbook, etc., in order to complete Part III of this exam. Use a blue book or typing paper for Part III.

THE TOTAL TIME FOR PARTS I, II, AND III IS THREE HOURS.

GOOD LUCK!

Questions 1-25 of Part I, and Questions 1-12 of Part II are not intended to be released. You may not have in your possession or have access to any of these questions following the administration of this examination, nor may you disclose the specific contents of these questions to any other person without the express consent of the instructor. If you had advance possession of or knowledge of any question contained in this examination, report that fact to Dr. Trainor immediately.

(EXAMINATION BEGINS ON THE NEXT PAGE)

521 Business Association II
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PART III

Essay Question (50 points)

You may use your text and notes for Part III

On April 1, 2000, Pits.com, Inc., ("Pits") was a Delaware corporation engaged in the manufacture and sale of products for household pets, all of which were marketed through the internet. It had approximately 300 shareholders; approximately 295 individuals (the "Pits Minority Shareholders") owned 35% of Pit's only class of outstanding capital stock and the remaining 65% was owned by Paul Vitolo ("PV"), the President of Pits, Robert Darke ("RD"), Pits' treasurer and three other individuals (the "Others") all of whom served on Pits' Board of Directors. The book value of each Pits share was $2.00 and its earnings per share in 1999 were $0.50. Also on April 1, 2000, Sisco Products, Inc. ("Sisco") was a New Mexico computer corporation with approximately 8 shareholders and three directors, including RD and PV.

On April 1, 2000, Sisco issued 100,000 shares for $2.00 per share to 40 additional persons (the "Y2K Purchasers"), all of whom were financially sophisticated but only half of whom were financially secure. Nothing other than financial statements were given by Sisco to the Y2K Purchasers and no filings were made with any regulatory authorities.

On May 1, 2000, PV, the president of Pits learned that Sisco was in the process of developing a new automatic auditory pet control device that could significantly increase the ability of absent owners to monitor their pet's behavior. All of the five directors of Pits and the three directors of Sisco were aware of this information but no one else in Pits or Sisco knew of it except Sisco's chief engineer.

PV caused Pits to arrange a merger with Sisco. Pursuant to the terms of the merger, Sisco was to be the surviving corporation and each holder of Pits shares who owned fewer than 100 shares would be "cashed out" for $3.50 per share. All other shareholders of Pits would receive two shares of Sisco for each one share of Pits. The effect of these terms was that no Pits shareholder except PV, RD, and the Others would become shareholders of Sisco.

The merger was approved by a majority vote at the Pits special shareholder's meeting on June 1, 2000. Articles of Merger were filed on June 2, 2000, and the merger became effective on that day.

Between June 2, 2000, and June 15, 2000, six of the Y2K Purchasers sold their Sisco shares. Three (the "Tax Sellers") sold only because they badly needed money for their federal income tax bill. They sold to Helen Kardon ("Kardon"). Kardon, who paid $4.00 per share, had discussed the new Sisco product in detail with her roommate, Sisco's chief engineer. Three other members of the Y2K Purchasers sold in the open market to New Mexico investors (the "Investors"), none of whom had any specific knowledge of the new development.

On June 16, 2000, Sisco announced its new product as a technological breakthrough that would revolutionize pet ownership. Sisco's earnings per share increased to $5.00 per share for 2000, and several large institutions have been offering $50-$80 per share for Sisco shares.

You have been approached by the following persons: A, one of the Pits Minority Shareholders; B, one of the three Tax Sellers; C, one of the three Sisco sellers who sold to the Investors; D, a person who was one of the Y2K Purchasers and E, a person who was going to purchase additional shares of Sisco in the open market on June 1, 2000 but did not because she had heard too little about its business activities.

Please analyze and discuss the potential rights of each of the five persons against all possible defendants suggested by these facts. In order to be complete in your analysis, you will need to discuss the principles of the 1933 Act, the 1934 Act and the New Mexico Securities Act.