Student name:\_\_\_\_\_\_\_\_\_\_

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.  
1)** The market for venture capital refers to the:

1) \_\_\_\_\_\_

A) private financial marketplace for servicing new, often high-risk firms.   
 B) corporate bond market.  
 C) market for selling unsubscribed rights.  
 D) market for selling seasoned equity securities.  
 E) public market for all issues of both company stocks and bonds.

**2)** In a typical deal, the venture capitalist will receive at least \_\_\_\_ percent of the equity of the financed firm.

2) \_\_\_\_\_\_

A) 5   
 B) 20  
 C) 40  
 D) 50  
 E) 75

**3)** Venture capitalists are:

3) \_\_\_\_\_\_

A) intermediaries that raise funds from outside investors.   
 B) investors who take a hands-off approach to investment management.  
 C) generally interested in primarily long-term debt investments.  
 D) easily contacted and tend to assist with most requests received.  
 E) generally granted a maximum of 25 percent of a firm’s equity.

**4)** In exchange for providing financing to new firms, venture capitalists generally receive:

4) \_\_\_\_\_\_

A) the personal financial guarantees of all current owners.   
 B) an equity position and board of director positions.  
 C) the right to set the offer price in any future initial public offering.  
 D) the protection provided by a court-appointed trustee.  
 E) a government-funded guarantee of repayment for all funds provided.

**5)** It is often the case that venture capitalists will:

5) \_\_\_\_\_\_

A) hold voting preferred stock which grants them priorities in the event of a sale or liquidation.   
 B) hold voting common stock which grants them priorities over the debt holders.  
 C) hold nonvoting preferred stock.  
 D) hold nonvoting common stock.  
 E) obtain seats on the board but not obtain shares of stock.

**6)** Reilly Motors has spent nearly all its startup funds and is now seeking venture capital to start producing its hydrogen-powered vehicles. Which type of financing is it seeking?

6) \_\_\_\_\_\_

A) Mezzanine financing   
 B) First-round financing  
 C) Bridge financing  
 D) Seed money financing  
 E) Second-round financing

**7)** In 2019, the greatest amount of venture capital was raised in which three U.S. states?

7) \_\_\_\_\_\_

A) California, Texas, and New York   
 B) California, Texas, and Massachusetts  
 C) California, Massachusetts, and New York  
 D) New York, Illinois, and Texas  
 E) New York, California, and Illinois

**8)** Management’s first step in any issue of securities to the public is to:

8) \_\_\_\_\_\_

A) file a registration form with the SEC.   
 B) distribute copies of the preliminary prospectus.  
 C) distribute copies of the final prospectus.  
 D) obtain approval from the board of directors.  
 E) prepare the tombstone advertisement.

**9)** What information is in a red herring?

9) \_\_\_\_\_\_

A) The same information as the final prospectus except for the SEC approval.   
 B) The same information as the final prospectus.  
 C) Only a brief synopsis of the final prospectus.  
 D) Only a description of how the funds raised will be used.  
 E) Information very similar to the final prospectus but without the selling price.

**10)** A firm intends to sell new securities to the public. Under which one of the following circumstances can the firm avoid filing a registration statement with the SEC? If the:

10) \_\_\_\_\_\_

A) issue is less than $50 million.   
 B) securities are loans that mature in one year or less.  
 C) issue is less than $2.5 million.  
 D) securities are valued at less than $5 million and are being sold on the Internet.  
 E) securities are loans that mature within nine months.

**11)** Regulation A governs securities issues that are:

11) \_\_\_\_\_\_

A) distributed solely among current company employees and directors.   
 B) sold in full to a single purchaser.  
 C) those that only include securities currently held by corporate insiders.  
 D) limited such that only current shareholders can purchase them.  
 E) valued at less than $5 million.

**12)** The primary way that potential investors obtain detailed information regarding a new issue of securities is by reading the:

12) \_\_\_\_\_\_

A) SEC’s comment letter.   
 B) preliminary prospectus.  
 C) letter of commitment.  
 D) registration statement.  
 E) rights offering statement.

**13)** A registration statement is effective on the 20th day after filing unless:

13) \_\_\_\_\_\_

A) the SEC is backlogged with statements.   
 B) a tombstone ad is issued indicating its demise.  
 C) a letter of comment suggesting changes is issued by the SEC.  
 D) a syndicate can be formed sooner.  
 E) the issue exceeds $50 million in which case the wait period is 30 days.

**14)** By employing \_\_\_\_\_\_\_\_, a firm can list its stock on a stock exchange without the help of an underwriter.

14) \_\_\_\_\_\_

A) equity crowdfunding   
 B) charitable crowdfunding  
 C) token securities  
 D) a direct listing  
 E) venture capital

**15)** The maximum amount of equity that can be raised through crowdfunding in a 12-month period is:

15) \_\_\_\_\_\_

A) $1 million.   
 B) $25 million.  
 C) $10 million.  
 D) $50 million.  
 E) $100 million.

**16)** Tokens offered in initial coin offerings:

16) \_\_\_\_\_\_

A) can be exchanged for services but not for cash.   
 B) can only be obtained from Ethereum.  
 C) must be exchanged for shares of common stock once the coin’s issuer has gone public.  
 D) are considered to be illiquid investments.  
 E) may be obtained in the hope that the tokens will appreciate in value.

**17)** The first equity issue offered to the general public by a firm is a:

17) \_\_\_\_\_\_

A) rights offer.   
 B) general cash offer.  
 C) restricted placement.  
 D) direct placement.  
 E) seasoned offering.

**18)** An equity issue sold to the firm’s existing stockholders is called a:

18) \_\_\_\_\_\_

A) rights offer.   
 B) general cash offer.  
 C) private placement.  
 D) restricted placement.  
 E) direct placement.

**19)** The first public equity issue offered by a company is commonly referred to as a(n):

19) \_\_\_\_\_\_

A) initial private offering.   
 B) initial public offering.  
 C) secondary offering.  
 D) seasoned new issue.  
 E) registered issue.

**20)** A seasoned equity offering:

20) \_\_\_\_\_\_

A) may be either a cash offer or a rights offer.   
 B) is a privileged subscription.  
 C) must be a rights offer.  
 D) must be a direct placement.  
 E) must be a cash offer.

**21)** Assume a firm issued securities through an agreement where the investment bankers sold as many shares as possible at a fixed price. This issue would be classified as a:

21) \_\_\_\_\_\_

A) Dutch auction.   
 B) direct rights offer.  
 C) direct placement.  
 D) best-efforts cash offer.  
 E) standby rights offer.

**22)** A firm commitment arrangement with an investment banker occurs when the:

22) \_\_\_\_\_\_

A) syndicate is in place to handle the issue.   
 B) spread between the buying and selling price is less than one percent.  
 C) issue is solidly accepted in the market as evidenced by a large price increase.  
 D) investment banker buys the securities for less than the offering price and accepts the risk of not being able to sell them.  
 E) investment banker sells as much of the security as the market can bear without a price decrease.

**23)** The Green Shoe provision is used to:

23) \_\_\_\_\_\_

A) cover oversubscriptions.   
 B) address unsold shares.  
 C) provide additional reward to investment bankers for a risky issue.  
 D) provide funding to investment bankers for unsold shares.  
 E) reduce the number of shareholders.

**24)** Which one of the following services is *least* likely to be offered to a corporation by an investment bank?

24) \_\_\_\_\_\_

A) Formulating a method to issue new securities   
 B) Pricing of new securities  
 C) Facilitating a merger  
 D) Providing checking account management  
 E) Selling new securities

**25)** Which one of the following is *not* one of the four main functions provided by underwriters?

25) \_\_\_\_\_\_

A) Assumption of some market risk   
 B) Responsibility for marketing securities  
 C) Auditing the financial statements  
 D) Estimating the value of an offering  
 E) Establishing the offer price

**26)** In a best efforts offering the investment bank makes its money primarily by earning:

26) \_\_\_\_\_\_

A) the spread between the buying and offering price.   
 B) a commission on each share sold.  
 C) a negotiated percentage of the offering price.  
 D) a flat fee charged for services rendered.  
 E) the difference between the offer price and the warrant price.

**27)** Under the \_\_\_\_\_\_\_ method, the underwriter buys the entire issue, while under the \_\_\_\_\_\_\_ method, the underwriter does not purchase the shares but merely acts as an agent.

27) \_\_\_\_\_\_

A) best efforts; firm commitment   
 B) firm commitment; best efforts  
 C) negotiated offer; competitive offer  
 D) competitive offer; negotiated offer  
 E) seasoned; unseasoned

**28)** Empirical evidence suggests that new equity issues are generally:

28) \_\_\_\_\_\_

A) priced efficiently by the market.   
 B) overpriced by investor excitement concerning a new issue.  
 C) overpriced resulting from SEC regulation.  
 D) underpriced, in part, to counteract the winner’s curse.  
 E) underpriced resulting from SEC regulation.

**29)** In a Dutch auction underwriting arrangement, the price at which offered securities are sold is determined by the:

29) \_\_\_\_\_\_

A) lead underwriter.   
 B) bidders.  
 C) SEC.  
 D) issuing firm.  
 E) venture capitalists.

**30)** Green Shoe options generally last \_\_\_\_ days and benefit \_\_\_\_.

30) \_\_\_\_\_\_

A) 30; the issuer   
 B) 30; the underwriting syndicate  
 C) 60; the underwriting syndicate  
 D) 60; the issuer  
 E) 90; both the issuer and the underwriting syndicate

**31)** Which one of the following actions takes place during the aftermarket period?

31) \_\_\_\_\_\_

A) The red herrings are distributed.   
 B) Underwriters generally only sell shares at or above the offer price.  
 C) Book building is conducted.  
 D) The lead underwriter determines the offer price.  
 E) Underwriting negotiations are completed.

**32)** Oversubscription is most commonly the result of:

32) \_\_\_\_\_\_

A) unsuccessful book building.   
 B) underpricing.  
 C) exercising the Green Shoe option.  
 D) a negotiated, rather than a competitive, underwriting.  
 E) unexercised rights.

**33)** Negotiated offers generally:

33) \_\_\_\_\_\_

A) are used as a last resort.   
 B) involve an underwriting syndicate.  
 C) result in higher issue costs than do competitive offers.  
 D) involve only large issuers.  
 E) reduce the probability an issue will be successful.

**34)** During a *road show*, the underwriting process known as \_\_\_\_\_\_\_\_ takes place.

34) \_\_\_\_\_\_

A) capital reputation building   
 B) bookbuilding  
 C) locking-up  
 D) syndication  
 E) Dutch auctioning

**35)** Historically, firms that issued new securities at a price that was above the file price range have:

35) \_\_\_\_\_\_

A) successfully avoided leaving any significant funds on the table.   
 B) ended up overpricing their securities by at least 10 percent.  
 C) left more money on the table than firms that issued within the file price range.  
 D) ended up with unsold shares even though the final offer price was considered to be fair.  
 E) left less money on the table than firms that issued at or below the file price range.

**36)** Empirical evidence suggests that upon announcement of a seasoned equity issue, current stock prices generally:

36) \_\_\_\_\_\_

A) decrease perhaps because the issue reflects management’s view the stock is overvalued.   
 B) remain fairly constant since an efficient market anticipates a new equity issue.  
 C) decrease perhaps because the issues are associated with positive NPV projects.  
 D) increase because the market supply is always less than demand.  
 E) increase because underwriters exercise their Green Shoe option.

**37)** Debt capacity is often offered as a reason for a stock price to decline when additional equity securities are issued. The primary reason that supports this argument is that:

37) \_\_\_\_\_\_

A) the high issue costs of a debt offering must be paid by the shareholders.   
 B) an additional equity issue reduces the debt capacity of a firm.  
 C) management feels the probability of default has risen, which limits the firm’s debt capacity and thus an equity issue is necessary.  
 D) unless additional debt is issued in the future, stock dividends will tend to decline after the new securities are issued.  
 E) additional equity is only issued when a firm cannot meet its current debt obligations, thereby signaling the firm is on the verge of bankruptcy.

**38)** Among the direct expenses of an IPO are the:

38) \_\_\_\_\_\_

A) gross spread plus other direct expenses.   
 B) gross spread and underpricing.  
 C) abnormal returns and underpricing.  
 D) Green Shoe option and the abnormal returns.  
 E) gross spread, Green Shoe option, and other direct expenses.

**39)** The total direct costs of equity issues are \_\_\_\_\_\_\_\_ than those of debt issues.

39) \_\_\_\_\_\_

A) considerably less   
 B) the same  
 C) minimally less  
 D) considerably greater  
 E) minimally greater

**40)** The lowest direct issue costs as a percentage of gross proceeds are generally incurred by:

40) \_\_\_\_\_\_

A) small-sized IPOs.   
 B) issues of straight, investment-grade bonds.  
 C) SEOs.  
 D) large-sized IPOs.  
 E) issues of convertible bonds.

**41)** To determine the total value of a rights offering, in addition to the number of rights issued the stockholder needs to know the following two pieces of information, the:

41) \_\_\_\_\_\_

A) subscription price and the number of rights needed to acquire a new share.   
 B) current market price per share and the number of rights needed to acquire a new share.  
 C) current market price per share and the standby fee.  
 D) detachment date and the subscription price.  
 E) the number of rights needed to acquire a new share and the number of shares currently owned.

**42)** Assuming everything else is constant, when a stock goes ex-rights the stock price should:

42) \_\_\_\_\_\_

A) decrease since the stockholder is losing an option.   
 B) increase since the corporation no longer has the right to force the stockholder to convert.  
 C) remain the same since an efficient market would anticipate this change.  
 D) remain constant as shareholder value is unaffected by a rights offering.  
 E) decrease by the amount of the tax applicable to the right.

**43)** If current shareholders want to acquire one share of stock under a rights plan they must:

43) \_\_\_\_\_\_

A) acquire new shares of stock that are being issued with rights attached.   
 B) pay a registration fee plus the subscription price per share requested.  
 C) submit the number of rights required plus the subscription price.  
 D) inform the issuer and submit the market price per share desired.  
 E) exchange their current shares for new shares that have rights attached.

**44)** Which one of the following statements is true concerning a rights offering?

44) \_\_\_\_\_\_

A) The subscription price is generally greater than the market price.   
 B) The subscription price must be greater than the ex-rights price.  
 C) The subscription price is generally less than the market price.  
 D) The ex-rights price is generally higher than the rights-attached price.  
 E) The market price tends to increase on the ex-rights date.

**45)** Shareholders who have rights are always:

45) \_\_\_\_\_\_

A) better off if they exercise the rights rather than sell them.   
 B) better off if they sell their rights rather than exercise them.  
 C) in the same financial position if they sell or if they exercise their rights.  
 D) able to purchase one new share for each right they own.  
 E) financially disadvantaged any time a rights offer is made, regardless of any action they take.

**46)** A standby underwriting arrangement in conjunction with a rights offering provides the:

46) \_\_\_\_\_\_

A) issuer with methods to cancel the offering should they so desire.   
 B) issuer with an alternate investment banker if a conflict between the issuer and the original investment banker arises.  
 C) investment banker with an oversubscription privilege to ensure profits are earned.  
 D) issuer with an alternative avenue of sale to ensure success of the rights offering.  
 E) investment bankers with a means of withdrawing from their firm offer.

**47)** Arguments offered as explanations, with or without market evidence, as to why most U.S. equity issues are sold without rights include all the following *except:*

47) \_\_\_\_\_\_

A) underwriters buy at an agreed upon price and bear some risk of selling the issue.   
 B) cash proceeds are available sooner in underwriting and the issue is available to a wider market.  
 C) underwriters certify that the offering price is consistent with the true value of the issue.  
 D) the underwritten offer price is generally set 48 hours prior to the offering while the rights price must be set much further in advance.  
 E) underwriters tend to increase the stock price through their sales efforts.

**48)** Dilution generally refers to the:

48) \_\_\_\_\_\_

A) increase in stock value due to wider ownership of stock.   
 B) the decrease in existing shareholders' ownership percentage when new equity is issued.  
 C) loss in new shareholders' equity.  
 D) splitting of a single share of stock into multiple shares.  
 E) issuance of debt to repurchase shares.

**49)** The type(s) of dilution that are most relevant to a firm’s shareholders when the firm’s shares are issued with rights is(are) the dilution of:

49) \_\_\_\_\_\_

A) percentage ownership.   
 B) stock price per share.  
 C) both book value per share and earnings per share.  
 D) both percentage ownership and book value per share.  
 E) both stock price per share and earnings per share.

**50)** If existing shareholders are offered rights to a new issue of securities, those shareholders:

50) \_\_\_\_\_\_

A) will receive additional shares at no additional cost to themselves.   
 B) will need to pay the current market price per share on the day they tend their rights.  
 C) must participate in the offering if they wish to maintain their current ownership position.  
 D) will pay the book price per share for each share obtained through the rights process.  
 E) should expect to receive the book value per share for each right they have been granted.

**51)** If a rights offer is used as the means of funding a positive net present value project, then shareholders should expect the price of their shares to:

51) \_\_\_\_\_\_

A) remain constant as the value of the project will be offset by the issuance of the new shares.   
 B) decrease due to the additional shares being offered.  
 C) change but the direction of that change cannot be predicted.  
 D) change in direct relation to the change in the book value per share.  
 E) increase due to the increased value of the issuing firm.

**52)** Assume a firm issued rights to fund a new project. If this project immediately increases the market value per share, then:

52) \_\_\_\_\_\_

A) no dilution of ownership position can occur.   
 B) the book value per share had to remain constant.  
 C) the EPS will also immediately increase.  
 D) the shareholders will be worse off than before, whether or not they participate in the offering.  
 E) the firm has acted in the best interest of its pre-rights shareholders.

**53)** Corporations primarily use the shelf registration method of security sales because:

53) \_\_\_\_\_\_

A) preregistered securities can be quickly brought to market.   
 B) SEC registration is avoided.  
 C) their stock is rated as junk.  
 D) they are issuing securities to the general public for the first time.  
 E) they are doing a private offering.

**54)** All the following are major requirements needed to qualify for shelf registration *except:*

54) \_\_\_\_\_\_

A) having a current rating of investment grade.   
 B) having outstanding stock with a market value in excess of $150 million.  
 C) not defaulting on debt in the past three years.  
 D) having no violations of the Securities Act of 1933 in the past three years.  
 E) having no violations of the Securities Exchange Act of 1934 in the past three years.

**55)** One argument against the use of shelf registration is:

55) \_\_\_\_\_\_

A) that it is limited to only technology and manufacturing firms which provides those industries with a market advantage.   
 B) that it provides an unfair advantage to debt issues.  
 C) that it unfairly increases the market price of the registered security.  
 D) the ability to use the dribble method in conjunction with the shelf registration.  
 E) the age of the information disclosure.

**56)** Which one of the following statements related to debt financing is correct?

56) \_\_\_\_\_\_

A) Debt issues of any type, unlike equity issues, do not require SEC registration.   
 B) Commercial banks specialize more in private placements than in term loans.  
 C) Private placements generally have longer maturities than term loans.  
 D) The majority of debt issues are public issues.  
 E) Public debt issues generally have more restrictive covenants than private issues.

**57)** Assume there are three upcoming IPOs (A, B, and C) that are priced at $20 per share. You place an order with your broker to purchase 500 shares of each of the three offerings. Further assume that A is oversubscribed and your allocation is only 100 shares. You receive a full allocation on both B and C. Offer A is undervalued by $13, B is overvalued by $8, and C is overvalued by $1. What will be your combined total profit or loss on these three investments?

57) \_\_\_\_\_\_

A) −$3,200   
 B) −$1,125  
 C) $2,000  
 D) $1,125  
 E) $3,200

**58)** Hayley placed an order for 300 shares of each of four separate IPOs (Orders A, B, C, and D) with an offer price of $16 each. She received 100 shares of Order B, 200 shares of Order D, and 300 shares of the other orders. At the end of the first day, Order A was overpriced by $2 per share, Order B was underpriced by $4 per share, Order C was correctly priced, and Order D was overpriced by $1 per share. What was combined total profit or loss for the first day on these four orders?

58) \_\_\_\_\_\_

A) −$400   
 B) $400  
 C) $100  
 D) −$100  
 E) −$300

**59)** Olsson Outdoors recently offered 10,000 shares of stock for sale via a Dutch auction. The firm received bids as follows: 1,000 shares at $32.25 per share; 5,000 shares at $32.00 per share; 6,600 shares at $31.90 per share; and 12,000 shares at $31.50 per share. Ignoring all costs, how much will the firm receive from this auction?

59) \_\_\_\_\_\_

A) $319,850   
 B) $315,000  
 C) $319,000  
 D) $322,000  
 E) $318,250

**60)** Andrew bid $32.50 per share for 500 shares in a Dutch auction for Vargas Resorts shares of stock. The other bids were $33 for 200 shares, $32 for 600 shares, $35 for 100 shares, and $30 for 500 shares. Vargas was seeking to sell 1,000 shares. What price did Andrew pay for each share he purchased?

60) \_\_\_\_\_\_

A) $33   
 B) $32  
 C) $35  
 D) $30  
 E) $32.50

**61)** Read Machine needs $25.7 million to fund an expansion project. The firm has decided to raise the funds through a negotiated offering. The terms of the offer include an offer price of $18.75 per share and an underwriting spread of 7.1 percent. How many shares must the firm sell in order to raise the funds it needs?

61) \_\_\_\_\_\_

A) 19,305,164   
 B) 454,033  
 C) 1,370,667  
 D) 1,273,349  
 E) 1,475,422

**62)** A firm has negotiated a seasoned equity offer that will provide the firm with $1.68 million in net proceeds. The underwriting spread is 7.35 percent and the firm needs to sell 50,000 shares. What is the offer price?

62) \_\_\_\_\_\_

A) $36.07   
 B) $37.25  
 C) $36.27  
 D) $34.50  
 E) $33.60

**63)** Chong Resources requires $1.75 million to fund a new project and has decided to raise the funds via a seasoned stock offering. Assume the firm will incur $140,000 in indirect costs and pay 8.63 percent of the gross proceeds in direct costs. How much does the firm need to raise in total to cover all the issue costs as well as fund the new project?

63) \_\_\_\_\_\_

A) $2,068,513   
 B) $2,037,825  
 C) $2,055,289  
 D) $1,914,650  
 E) $1,984,294

**64)** The Wordsmith Corporation has 40,000 shares outstanding with a market price of $25 each. The firm expects to raise $200,000 via a rights offering at a subscription price of $20. How many rights must be submitted to acquire one new share?

64) \_\_\_\_\_\_

A) .20   
 B) .25  
 C) 5.00  
 D) 1.25  
 E) 4.00

**65)** Assume it requires 3 rights to obtain a new share in a rights offering. If the stock’s price prior to the ex-rights date is $25 and the ex-rights price is $22.75, what is the value of each right?

65) \_\_\_\_\_\_

A) $.67   
 B) $.75  
 C) $.56  
 D) $1.25  
 E) $2.25

**66)** You currently own 200 shares of a stock valued at $21 per share. A rights offer has just been announced that grants the option of obtaining one new share for two rights plus $17. Each current share is entitled to one right. What is the value of each right?

66) \_\_\_\_\_\_

A) $1.33   
 B) $1.25  
 C) $.33  
 D) $.67  
 E) $1.67

**67)** Mustin Custom Homes wants to raise $2.4 million in new equity via a rights offering with a subscription price of $12. There are currently 2.6 million shares outstanding, each with one right. How many rights are needed to purchase one new share?

67) \_\_\_\_\_\_

A) 12   
 B) 18  
 C) 20  
 D) 13  
 E) 6

**68)** Chapa Cinemashas 150,000 shares outstanding with a market price per share of $15. Each share is entitled to one right. If the firm sets a rights offer as 5 rights plus $10 for each new share, what will be the ex-rights price per share?

68) \_\_\_\_\_\_

A) $12.23   
 B) $14.17  
 C) $15.83  
 D) $13.77  
 E) $14.49

**69)** The Mendoza Company has 20,000 shares outstanding at $30 each. The firm expects to raise $200,000 via a rights offering at a subscription price of $25. How many rights are required for each new share?

69) \_\_\_\_\_\_

A) 1.25   
 B) 1.50  
 C) 2.00  
 D) 2.50  
 E) 2.25

**70)** Assume a stock has an ex-rights price of $32. The rights offer has a requirement of 3 rights per new share and a subscription price of $30. What is the rights-on stock price?

70) \_\_\_\_\_\_

A) $28.06   
 B) $32.67  
 C) $42.00  
 D) $40.94  
 E) $38.33

**71)** A rights offer was set at four rights plus $25 for each new share. What is the rights-on price if the ex-rights price is $30?

71) \_\_\_\_\_\_

A) $35.00   
 B) $25.00  
 C) $30.00  
 D) $31.25  
 E) $32.50

**72)** A stock has a rights-on price of $20, an ex-rights price of $18.25, and the number of rights needed to buy one new share is 5. Assuming everything else is held constant, what is the subscription price?

72) \_\_\_\_\_\_

A) $9.50   
 B) $11.25  
 C) $16.67  
 D) $14.50  
 E) $21.90

**73)** Schwartz and Company has 120,000 shares outstanding, which are trading for $26.42 per share. The first will issue 40,000 additional shares at $19.85 per share. What will be the ex-rights price of the existing shares?

73) \_\_\_\_\_\_

A) $26.42   
 B) $21.49  
 C) $33.04  
 D) $24.78  
 E) $19.82

**74)** Fischer, Incorporated, has 250,000 shares of stock outstanding, $400,000 in perpetual annual earnings, and a discount rate of 16 percent. The firm is considering a new project that has initial costs of $350,000 and annual perpetual cash flows of $60,000. How many new shares must be issued to fund the new project? Ignore taxes.

74) \_\_\_\_\_\_

A) 34,653   
 B) 33,928  
 C) 35,000  
 D) 36,028  
 E) 34,209

**75)** The Peter Corporation, and the Sellers Company have both announced IPOs. You place anorder for 1,150 shares of each IPO. One of the IPOs is underpriced by $15.00 and the other is overpriced by $7.75. If you could get all of the shares you ordered for each IPO, what would your profit be?

75) \_\_\_\_\_\_

A) $6,497.00   
 B) $7,417.25  
 C) $26,162.50  
 D) $17,250.00  
 E) $8,337.50

**76)** The Bert Corporation, and Ernie, Incorporated, have both announced IPOs. You place anorder for 1,050 shares of each IPO. One of the IPOs is underpriced by $17.50 and the other is overpriced by $8.25. You will receive all of the shares you ordered of the overpriced IPO, but only one-half of the shares you ordered of the underpriced IPO. What profit do you expect?

76) \_\_\_\_\_\_

A) $525.00   
 B) $9,712.50  
 C) $9,187.50  
 D) $8,093.75  
 E) $27,037.50

**77)** Gravity, Incorporated, needs to raise $47.5 million to fund its expansion plans. The company will sell shares at a price of $27.90 in a general cash offer and the company's underwriters will charge a spread of 6 percent. How many shares need to be sold?

77) \_\_\_\_\_\_

A) 1,811,180 shares   
 B) 1,702,509 shares  
 C) 1,376,692 shares  
 D) 2,012,422 shares  
 E) 1,606,141 shares

**78)** Jenny Corporation needs to raise $45.5 million to fund a new project. The company will sell shares at a price of $27.50 in a general cash offer and the company's underwriters will charge a spread of 6 percent. The direct flotation costs associated with the issue are $550,000. How many shares need to be sold?

78) \_\_\_\_\_\_

A) 1,607,719 shares   
 B) 1,781,431 shares  
 C) 1,717,988 shares  
 D) 1,654,545 shares  
 E) 1,560,892 shares

**79)** Disturbed Corporation needs to raise $58.5 million to fund a new project. The company will sell shares at a price of $24.00 in a general cash offer and the company's underwriters will charge a spread of 7 percent. The direct flotation costs associated with the issue are $800,000 and the indirect costs are $475,000. How many shares need to be sold?

79) \_\_\_\_\_\_

A) 2,309,190 shares   
 B) 2,437,500 shares  
 C) 2,296,534 shares  
 D) 2,557,796 shares  
 E) 2,678,091 shares

**80)** Under a firm commitment agreement, Zeke, Company, went public and received $30.75 for each of the 7.1 million shares sold. The initial offer price was $33 and the stock rose to $35.61. The company paid $560,000 in direct flotation costs and $215,000 in indirect costs. What was the flotation cost as a percentage of funds raised?

80) \_\_\_\_\_\_

A) 25.52%   
 B) 16.22%  
 C) 21.88%  
 D) 7.60%  
 E) 26.93%

**81)** Northern Air would like to sell 1,900 shares of stock using Dutch auction underwriting. The bids received are:

|  |  |  |
| --- | --- | --- |
| **Stock** | **Quantity** | **Price** |
| **A** | 200 | $ 28.75 |
| **B** | 300 | 28.40 |
| **C** | 700 | 28.25 |
| **D** | 900 | 27.90 |
| **E** | 1,100 | 27.70 |

How much will the company raise in its offer?Ignore all flotation and transaction costs.

81) \_\_\_\_\_\_

A) $61,945   
 B) $53,675  
 C) $53,010  
 D) $54,625  
 E) $53,960

**82)** Kim placed an order with her broker for 750 shares of each of three IPOs being offered this week. Each of the IPOs has an offer price of $31. The number of shares allocated to Kim along with the closing prices on the first trading day are:

|  |  |  |
| --- | --- | --- |
| **Stock** | **Shares Allocated** | **Price** |
| **A** | 750 | $ 30.15 |
| **B** | 440 | 34.86 |
| **C** | 320 | 37.43 |

What is Kim's total profit on these three stocks at the end of the first day of trading?

82) \_\_\_\_\_\_

A) $7,080.00   
 B) $3,118.50  
 C) $5,099.25  
 D) $1,420.10  
 E) $3,564.00

**83)** Draiman Guitars is offering 75,000 shares of stock in an IPO by a general cash offer. The offer price is $32 per share and the underwriter's spread is 6.5 percent. The administrative costs are $315,000. What are the net proceeds to the company?

83) \_\_\_\_\_\_

A) $1,614,000   
 B) $2,085,000  
 C) $2,244,000  
 D) $1,929,000  
 E) $2,400,000

**84)** Pawprints Paint recently went public in a best efforts offering. The company offered 80,000 shares of stock for sale at an offer price of $40 per share. The administrative costs associated with the offering were $320,000 and the underwriter's spread was 7 percent. After completing their sales efforts, the underwriters determined that they sold a total of 76,200 shares. What werethe net proceeds to the company?

84) \_\_\_\_\_\_

A) $2,194,640   
 B) $2,514,640  
 C) $2,336,000  
 D) $2,656,000  
 E) $2,834,640

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.  
85)** Discuss the stages of venture capital financing, defining each in detail.

**86)** What are venture capitalists and what is their role in raising capital for firms?

**87)** The Direct Interactive Publishing Company is planning to raise $200 million dollars in new capital. There are currently 50 million shares outstanding with an estimated market price of $60 each. The corporate officers are debating whether to use a rights offering (with or without a standby underwriting) or have the issue fully underwritten. The company is currently listed on a regional exchange and plans to list on a national exchange after the new issue. List and explain three advantages/disadvantages of each issue method.

**88)** Discuss what a Dutch auction is and how it works.

**89)** Identify six components that comprise the total costs associated with issuing securities.

**90)** Identify and explain the key differences between public issues of debt and direct private long-term debt financing.

**Answer Key**Test name: Chapter 20

1) A

2) C

3) A

4) B

5) A

6) B

7) C

8) D

9) E

10) E

11) E

12) B

13) C

14) D

15) D

16) E

17) B

18) A

19) B

20) A

21) D

22) D

23) A

24) D

25) C

26) B

27) B

28) D

29) B

30) B

31) B

32) B

33) C

34) B

35) C

36) A

37) C

38) A

39) D

40) B

41) A

42) A

43) C

44) C

45) C

46) D

47) D

48) B

49) B

50) C

51) E

52) E

53) A

54) D

55) E

56) C

57) A

Total profit = 100($13) + 500(−$8) + 500(−$1)  
 Total profit = −$3,200

58) A

Total profit = 300(−$2) + 100($4) + 300($0) + 200(−$1)  
 Total profit = −$400

59) C

Gross proceeds = 10,000($31.90)  
 Gross proceeds = $319,000

60) B

To sell 1,000 shares, Vargas will need to sell at a price of $32 per share. At $32.50 per share, only 800 shares could be sold.

61) E

Number of shares = [$25,700,000/(1 − .071)]/$18.75  
 Number of shares = 1,475,422

62) C

Offer price = [$1,680,000/(1 − .0735)]/50,000  
 Offer price = $36.27

63) A

Gross proceeds = ($1,750,000 + 140,000)/(1 − .0863)  
 Gross proceeds = $2,068,513

64) E

Number of new shares = $200,000/$20  
 Number of new shares = 10,000  
   
 Number of rights needed per new share = 40,000/10,000  
 Number of rights needed per new share = 4

65) E

Value of one right = $25 − 22.75  
 Value of one right = $2.25

66) A

Value of one right = $21 − [2($21) + $17]/3  
 Value of one right = $1.33

67) D

Number of new shares = $2,400,000/$12  
 Number of new shares = 200,000  
   
 Number of rights needed to obtain one share = 2,600,000/200,000  
 Number of rights needed to obtain one share = 13

68) B

Ex-rights price = [5($15) + $10]/6  
 Ex-rights price = $14.17

69) D

New shares = $200,000/$25  
 New shares = 8,000  
   
 Number of rights required per share = 20,000/8,000  
 Number of rights required per share = 2.5

70) B

$32 = (3*P*rights-on + $30)/4  
 *P*rights-on = $32.67

71) D

$30 = (4*P*rights-on + $25)/5  
 *P*rights-on = $31.25

72) A

$18.25 = [5($20) + Subscription price]/6  
 Subscription price = $9.50

73) D

Rights per new share = 120,000/40,000 = 3  
   
 Ex-rights price per share = [3($26.42) + $19.85]/(3 + 1)  
 Ex-rights price per share = $24.78

74) A

Current price per share = ($400,000/250,000)/.16  
 Current price per share = $10  
   
 Firm value with project = −$350,000 + [($400,000 + 60,000)/.16]  
 Firm value with project = $2,525,000  
   
 Price per share with project = $2,525,000/250,000  
 Price per share with project = $10.10  
   
 New shares needed = $350,000/$10.10  
 New shares needed = 34,653

75) E

Profit = (1,150 × $15.00) − (1,150 × $7.75)  
   
 Profit = $8,337.50

76) A

Expected profit = (1,050 × 1/2 × $17.50) − (1,050 × $8.25)  
 Expected profit = $525.00

77) A

Required proceeds = $47,500,000/(1 − .06)  
 Required proceeds = $50,531,915  
   
 Number of shares offered = $50,531,915/$27.90  
 Number of shares offered = 1,811,180 shares

78) B

Required proceeds = ($550,000 + 45,500,000)/(1 − .06)  
 Required proceeds = $48,989,362  
   
 Number of shares offered = $48,989,362/$27.50  
 Number of shares offered = 1,781,431 shares

79) E

Required proceeds = ($58,500,000 + 800,000 + 475,000)/(1 − .07)  
 Required proceeds = $64,274,194  
   
 Number of shares offered = $64,274,194/$24.00  
 Number of shares offered = 2,678,091 shares

80) B

Net amount raised = (7,100,000 × $30.75) − 560,000 − 215,000  
 Net amount raised = $217,550,000  
   
 Total direct costs = $560,000 + ($33.00 − 30.75) × 7,100,000  
 Total direct costs = $16,535,000  
   
 Total indirect costs = $215,000 + ($35.61 − 33.00) × 7,100,000  
 Total indirect costs = $18,746,000  
   
 Total costs = $16,535,000 + 18,746,000  
 Total costs = $35,281,000  
   
 Flotation cost percentage = $35,281,000/$217,550,000  
 Flotation cost percentage = .1622, or 16.22%

81) C

Including Bidder D, the total number of shares bid is:  
   
 Shares including Bidder D = 200 + 300 + 700 + 900  
 Shares including Bidder D = 2,100  
   
 All shares will be sold at Bidder D's price, so:  
   
 Amount raised = $27.90 × 1,900  
 Amount raised = $53,010

82) B

Total profit = 750 × ($30.15 − 31) + 440 × ($34.86 − 31) + 320 × ($37.43 − 31)  
 Total profit = $3,118.50

83) D

Net proceeds = [75,000 × $32 × (1 − .065)] − $315,000  
 Net proceeds = $1,929,000

84) B

Net proceeds = [76,200 × $40 × (1 − .07)] − $320,000  
 Net proceeds = $2,514,640

85) Well-known classifications of the stages of venture capital financing are:  
   
 1.Seed money stage: A small amount of financing is needed to prove a concept or develop a product. Marketing is not included in this stage.  
 2.Startup: Financing for firms that started within the past year. Funds are likely used to pay for marketing and product development expenditures.  
 3.First-round financing: Additional money to begin sales and manufacturing after a firm has spent its startup funds.  
 4.Second-round financing: Financing is earmarked for working capital for a firm that is currently selling its product but still losing money.  
 5.Third-round financing: Financing for a company that is at least breaking even and is contemplating an expansion. This is also known as mezzanine financing.  
 6.Fourth-round financing: Money provided for firms that are likely to go public within half a year. This round is also known as bridge financing.

86) Venture capitalists are financial intermediaries that raise funds from outside investors. Venture capitalist firms, otherwise known as VC firms, are typically organized as limited partnerships. These firms partner with institutional investors such as pension plans, endowments, and corporations, which is the key characteristic that separates venture capitalists from angel investors who typically invest their own money. Second, venture capitalists play an active role in overseeing, advising, and monitoring the companies in which they invest. Third, venture capitalists generally prefer to be short-term investors who generally develop their exit strategy prior to their initial investment.

87) Rights method:  
 Advantages: lowest cost method, maintains ownership percentage, shareholders can fully participate and maintain wealth  
   
 Disadvantages: shareholders may not have capital, offer may not be fully subscribed, use of standby underwriting involves additional costs  
   
 Underwriting method:  
 Advantages: advice on issue characteristics and pricing from investment bankers, access to broader market, investors view underwriters as certifying the issue value, net proceeds known in advance if a firm commitment.  
   
 Disadvantages: costly, may be undersold if a best-efforts underwriting, current shareholders may not be able to maintain ownership percentage.

88) In a Dutch auction, the underwriter does not set a fixed price, but rather conducts an auction in which investors bid for the shares. This process is also known as a uniform price auction. Bidders submit bids stating the number of shares desired and the price they are willing to pay. The firm then sets the price at the highest level that will result in a sale of all offered shares. All bidders pay the same price. If there are more shares offered at the final price and above than the firm desires, then bids will be fulfilled on an allocated basis with each successful bidder receiving a portion of the shares stated in their bid.

89) The six components are:  
   
 Gross spread: difference between offer price and price the issuer receives  
   
 Other direct expense: costs incurred by the issuer such as legal and accounting fees  
   
 Indirect expenses: costs such as management time spent on the issue  
   
 Abnormal returns: the stock price decline associated with the announcement of a seasoned offering  
   
 Underpricing: difference between the actual after-issue market price and the offer price  
   
 Green Shoe option: additional shares provided at the offer price to the underwriters to cover overallotments; cost per share equals the after-issue market price minus the offer price

90) The key differences are:  
 1.Direct long-term loans avoid SEC registration  
 2.Direct placements generally have more restrictive covenants  
 3.Private placements are easier to renegotiate  
 4.Private placements are generally funded by institutions such as life insurance companies, pension funds, and commercial banks while public issues are open to all investors  
 5.Private placements are less expensive than public offerings