SECURITIES REGULATION
Professor Burch
Sample Final Exam Short Answer Questions
(Each short answer question is worth 5 points)

The following questions call for short (ie., six lines at most) answers. In your answers, cite to the relevant statutory or regulatory provisions, as well as any significant cases, and ***briefly*** explain yourself. If you need additional facts to answer a question, state them and explain their relevance.

Question (1) Rosie and Sally, two entrepreneurs, intend to form a limited partnership in the state of New Fiola for the purpose of investing in oil and gas drilling ventures. All of the general and limited partners will be New Fiola residents, all of the books and records of the partnership (including securities and similar evidences of ownership in the ventures) will be maintained in New Fiola, the sole office of the partnership will be located in New Fiola, the ventures will be located in New Fiola, and the securities will be sold through New Fiola brokers. Advise the entrepreneurs as to whether there would be any problems selling unregistered limited partner interests in the limited partnership under the intrastate offering exemption.

Question (2) Robert buys one percent of the preferred shares of Expeditions Inc. ("Expeditions"), a retail company, in a private offering by Expeditions. Expeditions is not required to make periodic filings under the Securities and Exchange Act of 1934. Other than as a preferred shareholder, Robert has no connection with Expeditions. After five months, Robert contemplates selling his stock through a registered broker, without registration under the Securities Act of 1933. Expeditions did not mention resale restrictions in the stock purchase agreement Robert signed, nor are the preferred share certificates legended. Robert assumes he can sell his shares without registering them. Is he correct? Why or why not?

Question (3) Apsoft is a startup software company that has decided to pursue the idea of a public offering. Due to the recent turmoil among Wall Street's largest investment banking firms, Apsoft's chief financial officer decides to approach Three Rivers Securities Co., a well respected regional underwriter. After several meetings between officers of Apsoft and Three Rivers, Three Rivers officers telephone other investment bankers in the region and discuss the possibility of working together on the offering. Has Three Rivers' violated section 5 of the Securities Act of 1933? Why or why not?

Question (4) Mummy's Hand, Inc. provides housecleaning services. Its chief financial officer, Delilah, would like to expand its operations. She is looking for ways to raise cash. She is interested in conducting a private placement under Rule 506, but she is not very familiar with the rule. Delilah would like to advertise the private placement in a local newspaper. Advise Delilah about whether she may do so and still claim the exemption.

The information in **Questions 5, 6 and 7** is cumulative; you should use information in Question 5 to answer Question 6, and information in Questions 5 and 6 to answer Question 7.

Question (5) Network Hosting, Inc. ("Network"), a computer network server manufacturer, recently concluded an initial public offering. Its shares are traded on Nasdaq and are now held by thousands of individuals. Its total assets currently are $50,000,000. Three months after the IPO, Network replaced its chief financial officer. The current CFO asserts that he is not required to certify last quarter's financial statements. Advise the CFO regarding whether or not he is required to certify last quarter's financial statements.

Question (6) Network's chief legal officer, a litigator who specializes in real estate transactions, has advised the board that so long as a publicly-traded company is not trading in its own securities, it has no general, ongoing duty to disclose material inside information. Is the chief legal officer correct? Why or why not?

Question (7) Network's officers recently met several times with officers of Macrocode, Inc. ("Macrocode"), a New York Stock Exchange traded company, to discuss the possibility of a merger between the two companies. Network's quarterly analyst phone call is scheduled for the end of next week. Network's board asked the chief legal officer to prepare in advance a response should analysts ask whether Network and Macrocode are conducting merger negotiations. The chief legal officer has prepared a statement that the company currently is not engaged in merger negotiations. Would this statement expose Network to liability under the Securities Exchange Act of 1934? Why or why not?