

**QUESTION 1**  
**(One Hour)**

Rockets Inc. (Rockets), a Delaware corporation with more than 1000 shareholders and at least \$25 million in assets, owns 55% of the issued and outstanding stock of Power Inc. (Power), a Delaware corporation with approximately 750 shareholders and \$15 million in assets. Rockets elects five of the nine Power directors. Those five individuals also sit on Rockets' board and comprise Rockets' executive management team (Team).

Rockets manufactures and launches spacecraft that put communication satellites in orbit. Power supplies fuel for the Rockets. The supply contract between Rockets and Power expired at the end of 2017. Instead of negotiating a new fuel supply agreement, Rockets' Team recommended that Rockets merge with Power. Calculations performed by the Team suggested that Rockets could save more than \$5 million each year by owning its own fuel production facility.

Gus, the president of Rockets, sent a letter to Jane, the president of Power, proposing a merger between the two companies. Though the tone of the letter was generally friendly, Gus concluded his correspondence to Jane with a thinly veiled threat that Rockets might turn to other suppliers if Power did not agree to merge with Rockets.

Power appointed an independent committee (Committee) to evaluate the proposal from Rockets. The Committee hired an investment banker, who advised them that the terms were fair. The Committee never learned about the Team's study and conclusion about how much money the merger would save Rockets. Committee meetings were often dominated by Brenda, a banker who had financed many of Rockets' other deals. She supported the merger and ignored any information contrary to her point of view. The committee approved the merger on the terms proposed by Rockets. Power then collected enough minority shareholder votes by proxy to approve the deal.

A group of Power shareholders who voted against the merger seek your advice. Even though the merger has been completed, they believe the terms were not fair. They are particularly troubled by a statement in the proxy solicitation materials that the Committee believed it would be difficult to find another purchaser for Power's fuel other than Rockets. The disgruntled shareholders do not think the Committee members actually believed that, since rocket fuel tends to be expensive and in short supply. They have also learned about the Team's study of the savings the merger would generate for Rockets and feel that information should have been disclosed to the Committee and the Power shareholders. Please advise them about their potential rights and remedies.

**QUESTION 2**  
**(One Hour)**

Susan is the president and a director of Pure Water, Incorporated (Pure), a Delaware corporation that bottles and sells drinking water from wells near Mount Shasta, California. Pure's board includes six other directors, including Jack—the plant manager.

Two years ago, the Environmental Protection Agency (EPA) sent Jack a letter claiming that Pure's bottling operation was responsible for a sharp decline in the water quality of local creeks and streams. Jack showed the letter to the other directors before delivering it to Susan. Susan assured the directors that the allegations in the letter were not a big deal. The directors did nothing further regarding the matter, even though an environmental consultant working for Pure had warned them repeatedly over the last few years of the need to monitor how the bottling facility was impacting the local watersheds.

Two months ago the EPA filed a lawsuit and obtained a temporary restraining order directing Pure to cease-and-desist from all bottling operations. All of the directors were named as defendants. Pure has been paying for their defense.

A group of Pure shareholders filed a derivative lawsuit against the directors for the damages suffered by Pure as a result of the shutdown. The directors hired you to advise them about whether or not they face any potential liability, and if so, will Pure be obligated to indemnify them. Pure's Articles of incorporation provide that the liability of the corporation's directors and officers is eliminated to the fullest extent allowed by law and that the corporation will indemnify its officers and directors to the fullest extent allowed by law.

Please advise them.

**QUESTION 3**  
**(One Hour)**

Kathy is a senior vice president of Hollywood Hills, Inc., a Delaware corporation (“Hollywood”) a growing film production company with more than 10,000 shareholders and more than \$20 million in assets.

On March 15, 2018, Kathy’s boyfriend, Charles, who worked at a law firm that represented a number of famous, young actors, told Kathy that one of his firm’s most popular actors, Steve Daredevil, was about to sign a multi-film deal with Hollywood. Charles told Kathy that he expected the price of Hollywood stock would jump dramatically when the deal was announced.

The next day, Kathy cleaned out her bank account and bought 10,000 shares of Hollywood stock for \$10 each. A few days later, on March 25, 2018, she bought another 10,000 shares at five dollars each.

By April 1, 2018, the movie industry was abuzz with rumors about Daredevil joining Hollywood. When the price of Hollywood’s stock climbed to \$20 a share, Kathy sold 10,000 shares of her Hollywood stock at that price on April 2, 2018..

Then, on April 10, 2018, the negotiations between Hollywood and Daredevil fell apart. Kathy heard the news from Hollywood’s president at a meeting of the senior management team. Kathy excused herself from the meeting and ran to call her stockbroker. The story of the breakup between Hollywood and Daredevil had leaked out, and the stock price had already plummeted. Still, Kathy was more fortunate than others. Trading early in the day on April 10, she managed to at least get two dollars per share for her remaining 10,000 shares of stock. That was better than most Hollywood shareholders. Panic selling followed, and by the end of the day, the stock was worthless. Hollywood filed bankruptcy on April 15.

About two months later, Kathy received a letter from the bankruptcy court trustee demanding that she disgorge \$150,000 in profits she realized from the trades she made in March and April. The FBI wants to interview her as well. Does Kathy face any potential civil or criminal liability for those trades? And if so, why?