

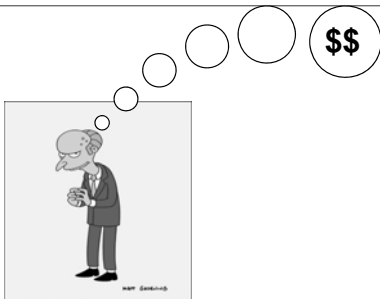
Teaching Business Associations from the Perspective of a Businessman

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Overview

1. How the businessman thinks
2. Why the businessman's perspective matters when teaching business associations
3. Applications in specific cases
 - a. *Dodge v. Ford Motor Inc.*
 - b. *Sharon Steel Corp. v. Chase Manhattan Bank*

1. How the businessman thinks



2. Why the businessman's perspective matters

- The business perspective shapes the deeper logic of many cases
- When students are practitioners, it is crucial that they understand the business perspective
- Students and practitioners need to be reminded of basic numeracy
 - Teaches students to pay attention to the numbers when reading a case

3.a. *Dodge v. Ford Motor Co.*

- Dodge sues Ford to force a dividend payment and to enjoin construction of the River Rouge Facility
- Before the suit Dodge brothers offer to sell their shares to Ford for **\$35 million**
- **Was this price a good deal for Ford?!**

3.a. *Dodge v. Ford Motor Co.*

Was the Dodge Brothers' \$35 million offer a good deal for Ford?

Step 1: Translate Dodge offer into implied firm value

$$\frac{\$ 35 \text{ million}}{\$ 350 \text{ million}} = \frac{10\% \text{ of firm}}{100\% \text{ of firm}}$$

3.a. Dodge v. Ford Motor Co.

Step 2: Is \$350 Million a fair firm value?

The diagram illustrates the relationship between 'Stock and Flow' and financial statements. 'Stock and Flow' is represented by two arrows pointing to 'Balance Sheet' and 'Income Statement'. The 'Balance Sheet' is associated with an image of a cow and lists 'Assets, Liabilities, Shareholder's Equity'. The 'Income Statement' is associated with an image of a waterfall and lists 'Sales, Revenues, Gross, Net Income, Profit'.

3.a. Dodge v. Ford Motor Co.

Step 2: Is \$350 Million a fair firm value?

Balance Sheet	Income Statement
↓	↓
Market to Book Value	Price to Earnings Multiple
Ford Book Value = \$ 132 million	Ford Net Income = \$ 60 million
Offer: 2.7 x Book Value	Offer: 6 x Price to Earnings (P/E)

3.a. Dodge v. Ford Motor Co.

- Dodge sues Ford to force a payment of dividends and injunction on the construction of the River Rouge Facility
- Before the suit Dodge brothers offer to sell their shares to \$35 million
- **Was this price a good deal for Ford? YES.**

3.b. Sharon Steel Corp. v. Chase Manhattan Bank

- Court asked to determine which indenture provision applies to transaction between Sharon Steel and UV Industries
- Competing provisions are successor obligor clause and liquidation clause
- Judge Winter applies liquidation clause
- **Was Judge Winter's *business analysis* sound?**

3.b. Sharon Steel Corp. v. Chase Manhattan Bank

- What calculation does Judge Winter use?
 - "Even when the liquid assets (**other than proceeds from the sale of Federal and the oil and gas properties**) are aggregated with the operating properties, the transfer to Sharon accounted for only 51% **of the total book value** of UV's assets."

3.b. Sharon Steel Corp. v. Chase Manhattan Bank

- Why rely on book value?


	Percent of UV Book Value	Price Sold For
Federal Pacific Electric	44%	\$ 345 million
Oil and Gas Properties	5%	\$ 135 million
Ratio	9 times	3 times

3.b. Sharon Steel Corp. v. Chase Manhattan

UV Industries Assets

- Why exclude **proceeds** from sale of Federal and oil and gas properties instead of liquidating dividend?

Liquidating Dividend (\$158 million?)
Judge Winter Calculation

Federal Pacific Electric Co.
Oil & Gas Properties

Mueller Brass Company

3.b. Sharon Steel Corp. v. Chase Manhattan Bank

- Court asked to determine which indenture provision applies to transaction between Sharon Steel and UV Industries
- Competing provisions are successor obligor clause and liquidation clause
- Judge Winter applies liquidation clause
- **Was Judge Winter's *business analysis* sound?**
NO.

Conclusion

Introducing the businessman's perspective when teaching business associations rewards students who pay attention to the financial details in the case!
