

Case 25 - 1c

Liger Pets Inc.

Liger Pets Inc. (Liger), a corporation, was established in June 20X4 to develop, produce, and sell exotic pet food throughout southeast Idaho. Equity ownership in Liger is equally split between Lion Corporation (Lion), a processor of animal food, and TigerMovement Inc. (Tiger), a regional logistics company.

Lion, a well-known animal-food processor in Preston, Idaho, serves clients throughout greater southeast Idaho and has a reputation for delivering high-quality animal food in a timely fashion. Lion is looking to expand its product offerings into the burgeoning exotic pet food space in the region.

Tiger is a start-up logistics company founded by two brothers in 20X3. While the lesser-known Tiger has not yet completed the delivery of any products, the company holds patents on Pedro, a promising software platform.

During the formation of Liger, Lion and Tiger each contributed \$750 for their respective 50 percent stakes in the new entity. The two parties agreed that Tiger must borrow from Lion the funds necessary to make its \$750 equity investment. (Lion does not make commercial loans in the normal course of its business, and it has full recourse to all of Tiger's assets.) The lending arrangement does not restrict Tiger's ability to (1) sell or hold its interest in Liger or (2) receive the benefits and obligations associated with the financed interest. Further, the loan agreement stipulates that Tiger is not permitted to prepay the loan.

All decisions that most significantly affect Liger require the consent of both Lion and Tiger (i.e., the two parties are not responsible for different activities and do not have unilateral discretion for a portion of the activity). This arrangement is achieved through equal representation of the two parties on Liger's board of directors.

In July 20X4, Liger entered into a debt agreement with a third-party bank (the "Bank") to fund the acquisition of 15 Dodge Santanas to increase transportation capacity and enhance customer experience. For Liger to obtain the loan, the Bank required that Lion guarantee the loan payments. Gross proceeds obtained from the loan were \$8,500. These fund-raising efforts resulted in a capital structure for Liger that comprises 15 percent equity and 85 percent debt.