

I-15.03

Roscovis Corporation's December 31, 20X6, equity section follows:

Stockholders' Equity		
Capital stock:		
Preferred stock, \$100 par value, callable at 105, 4%, cumulative, 200,000 shares authorized, 50,000 shares issued and outstanding	\$ 5,000,000	
Common stock, \$2 par value, 1,000,000 shares authorized, 400,000 shares issued and outstanding	<u>800,000</u>	\$ 5,800,000
Additional paid-in capital:		
Paid-in capital in excess of par -- preferred stock	\$ 50,000	
Paid-in capital in excess of par -- common stock	<u>4,000,000</u>	<u>4,050,000</u>
Total paid-in capital		\$ 9,850,000
Retained earnings		<u>7,400,000</u>
Total stockholders' equity		<u>\$17,250,000</u>

Roscovis Corporation has annually paid all preferred dividends. There were no changes in paid-in capital during all of 20X6. The beginning retained earnings was \$5,400,000. The ending balance of retained earnings is the result of \$3,000,000 in net income and \$1,000,000 in total dividends.

Determine the maximum price you would pay for a share of common stock in Roscovis if you have the following investment constraints:

Maximum Price/Earnings Ratio	15 X
Maximum Multiple of Book Value	3 X
Minimum Dividend Yield	3%