Your client, Lester Investor, has approached you with a problem he has just discovered. It seems that among Lester's many investments are common stock, "Mortgage Bonds," and "Subordinated Debentures" in XYZ Corporation. He has just received notice that a judge has put XYZ into receivership and ordered the corporation liquidated. Lester wants to know what his rights are and what the chances are of getting his money back.

In the course of investigating Lester's problem, you discover the following facts:

1. Lester purchased 100 shares of Common Stock in XYZ a year ago at $100 per share.

2. Lester holds 50 "XYZ Mortgage Bonds," which were issued by XYZ to finance construction of its office building. These bonds have a total current redemption value of $50,000. The total owed to all holders of XYZ Mortgage Bonds is $5,000,000.

3. Lester holds 50 "Subordinated Debentures" issued by XYZ, which also have a current total redemption value of $50,000. The total owed to all holders of XYZ Subordinated Debentures is $5,000,000.

4. XYZ owes its general creditors $5,000,000.

5. XYZ is a Delaware corporation. Its Certificate of Incorporation includes, in relevant part, the following clause:

> The Board of Directors is authorized to issue two classes of equity shares in XYZ Corporation. The Board may issue up to 100,000 shares of Common Stock. The Board may also issue up to 10,000 shares of Preferred Stock. In the event of a liquidation, Preferred Stock shareholders shall have preference with regard to distribution of the corporation's assets.

6. The Board has issued all 100,000 shares of its Common Stock, and all shares are outstanding.

7. Until recently, Preferred Stock had never been issued. At a Board Meeting six months ago, the Board issued each of its ten Directors 1,000 shares of Preferred Stock with a stated value of $500 a share. The Board resolution authorizing the issue noted that the stock was being issued to the Directors "in consideration of their future services to the corporation over the next two years."

8. XYZ has become insolvent due to gross mismanagement. After selling XYZ's office building for $6,000,000, and liquidating all of its accounts, the receiver has $10,000,000 available for distribution.

In your answer, discuss the nature of Lester's interest in each of his three investments in XYZ Corporation, and what likelihood he has of recovering money on each type of investment. How would your answer change if you learned that XYZ Corporation owned all the equity securities of a subsidiary, ABC Inc.?