

**Finance 203**  
**Course Outline and Reading List**

PROFESSOR RICHARD KIHLLSTROM

Fall, 2009

• **Readings**

- Brealey, Myers and Allen, *Principles of Corporate Finance*, Ninth Edition, McGraw Hill, 2008 (BMA) or Ross, Westerfield and Jaffe, *Corporate Finance*, Eighth Edition, McGraw Hill, 2008 (RWJ)
- Higgins, R., *Analysis for Financial Management*, Ninth Edition, McGraw Hill, 2009. (H)
- Bulk Pack, Available from Study Net (B)
- Additional readings and notes will be handed out in class. These will be duplicated by the instructor at Wharton duplicating and charged to students enrolled in the class. For the most part these notes will also be available on Webcafe. In many cases notes for the coming day will be on Webcafe in advance.

• **Grading**

- **Written Case Analyses: (50%)**
  - \* Students should organize themselves into groups of three or four. **Larger groups are absolutely not permitted. All students in a group should be registered in the same section; there will also be no exceptions permitted to this rule. Groups should be formed by Tuesday, Sept. 22.** The list of students in each group should be e-mailed to the instructor prior to class on that date or given to the instructor at the beginning of class on that date or earlier. Consult with the instructor if you are having a problem joining or forming a group.
  - \* The written analyses will be done by each group for each of the cases for which a student write-up is required. The written analysis will be **at most five double-spaced pages** and will, if necessary, be supported by appendices. Appendices that are not referred to in the analysis should not be included. The analysis will be preceded by a

one page double-spaced executive summary. (The one page summary will not count as one of the five pages of analysis.) **The written analyses will be turned in by 9am on the day of the class during which the case is to be discussed.** (Make additional copies for your own use during the class discussion.) **Late analyses will not be accepted!**

- There are three starred cases. Each of these will be worth one-quarter of the case grade (meaning 12.5% of the course grade). These case write-ups will each be given a grade between 1 and 10.
- The other cases for which a write-up is required will, therefore, in total also represent one-quarter of the case grade (meaning 12.5% of the course grade). These cases will each simply be given a grade of check, check-minus or check-plus.

– **Quizzes: (50%)**

- \* There will be periodic short (20 minute) quizzes. Most of the quizzes will be unannounced.
- \* There will be eight to ten quizzes in total.
- \* Each quiz will be given a grade between 1 and 10.
- \* Quizzes may occur at the beginning or at the end of class. They may cover the case to be discussed that day or cases discussed on previous days. They may also cover the reading material assigned for the preceding days or the class discussion and lectures for previous classes.
- \* **The first possible quiz will be on Tuesday, September 22.** There will be no quiz on Tuesday, October 20, the first class after the fall break. There will be no quiz on Tuesday, December 1, the first class after the Thanksgiving break.
- \* The bottom two quiz grades will be dropped when the grade is computed.

– **Class Discussion:** This will enter the grade determination only informally. It will be used for the purpose of determining grades only in borderline cases. In those cases it can definitely make a difference.

– **There will be no exams!**

- **Office:** SH-DH 2255
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- **e-mail:** kihlstro@wharton
- **Office Hours:** Mon and Tues 4:30-5:30 and by appointment
- **Thurs, Sept 10: Course Overview, Review and Introduction**
  - **Readings**
    - \* Benninga and Sarig, Chapters 1 and 2, B
    - \* (For Review) BMA, Chapters 1-12 or RWJ Chapters 1-12.
    - \* H, Chapters, 1-4, 7 and 9 (pp. 347-365)
- **Tues, Sept 15 and Thurs, Sept 17: Financial Statements, the Evaluation of Financial Performance and Financial Planning**  
**and Instructor Case Presentation and Class Discussion: Clarkson Lumber (No student write up required)**
  - **Readings**
    - \* Benninga and Sarig, Chapters 1 and 2, B
    - \* BMA, Chapters 29-31 or RWJ Chapters 26-28.
    - \* H, Chapters, 1-4, 7 and 9 (pp. 347-365)
    - \* Note on Bank Loans, B
- **Tues, Sept 22 (First date for a possible quiz; a possible quiz would cover readings and class discussion for 9/10-9/17 or Clarkson Case) and Thurs, Sept 24 (possible quiz would cover readings and class discussion for 9/10-9/17 or Clarkson Case): Risk Adjusted Discount Rates and Instructor Case Presentation and Class Discussion: Comsat (No student write up required)**
  - **Readings**
    - \* “Diversification, The Capital Asset Pricing Model, and the Cost of Equity Capital,” B
    - \* BMA, Chapters 8-10 or RWJ Chapters 8-12
    - \* H, Chapter 8
- **Tues, Sept 29: (possible quiz would cover readings and class discussion for 9/22 and 9/24 or Comsat Case) Leverage, the Discount Rate and WACC**

**– Readings**

- \* BMA, Chapters 18-20 or RWJ Chapters 15-17
- \* “Financial Leverage, The Capital Asset Pricing Model, and the Cost of Equity Capital,” B.
- **Thurs, Oct 1 (possible quiz would cover Marriott Case) Class Discussion: Marriott (Student write up required)**
- **Tues Oct 6 (possible quiz would cover readings and class discussion for 9/29, Comsat Case or Marriott Case) and Thurs, Oct 8: (possible quiz would cover cover readings and class discussion for 9/29, Comsat Case or Marriott Case) Instructor Case Presentation and Class Discussion: Harris Seafood (No student write up required)**
- **Tues, Oct 13: (possible quiz would cover All America Pipeline Case) Class Discussion: All America Pipeline (Student write up required)**
- **Thurs, Oct 15: (possible quiz would cover readings and class discussion for 9/29, Harris Case or All America Pipeline Case) Capital Structure and Three DCF Approaches: Discounting UFCF at WACC, APV and Discounting Flows to Equity at ROE**

**– Readings**

- \* BMA, Chapters 18-20 or RWJ Chapters 15-17
- \* H, Chapters 6 and 8
- \* Barclay, et.al., “The Determinants of Corporate Leverage and Dividend Policy,” B.
- \* Inselbag and Kaufold, “Two DCF Approaches for Valuing Companies Under Alternative Financing Strategies (and How to Choose Between Them),” B
- **Tues, Oct 20: (No quiz on this day) Capital Structure, Bankruptcy and Bond Ratings**

**– Readings**

- \* BMA Chapters 18-20 and 33 (section 33.4) or RWJ Chapters 15-17 and 30
- \* “Note on Bankruptcy in the US,” B

- **Thurs, Oct 22:** (possible quiz would cover American Chemical Case) **Class Discussion: American Chemical (Student write up required)**
- **Tues, Oct 27:** (possible quiz would cover readings and class discussion for 10/15 and 10/20 or the American Chemical Case) **Instructor Case Presentation and Class Discussion: American Home Products (No student write up required)**
- **Thurs, Oct 29:** (possible quiz would cover Energy Gel Case) **Class Discussion: Energy Gel (Student write up required)**
- **Tues, Nov 3:** (possible quiz would cover readings and class discussion for 10/15 and 10/20 or American Home Products Case) **Instructor Case Presentation and Class Discussion: Continental Airlines-1992 (No student write up required)**
- **Thurs, Nov 5:** (possible quiz would cover the case due this day) **Class Discussion: Case TBA\* (Student write up required. Worth 12.5% of the course grade.)**
- **Tues, Nov 10:** (possible quiz would cover readings and class discussion for 10/15 and 10/20 or Continental Airlines-1992 Case) **Takeovers, Mergers and "The Market for Corporate Control"**

– **Readings**

- \* BMA Chapter 32 or RWJ Chapter 29
  - \* H, Chapter 9 (pp. 347-365)
  - \* Jensen, "The Takeover Controversy: Analysis and Evidence," B.
  - \* Jarrell, Brickley and Netter, "The Market for Corporate Control: The Empirical Evidence Since 1980," B
  - \* Dodd, "The Market for Corporate Control: A Review of The Evidence," B.
  - \* Schleifer and Vishny, "The Takeover Wave of the 1980's" B
  - \* "Do Mergers Work?" B
  - \* "Why All Takeovers Aren't Created Equal," B
  - \* Jensen, "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," B
- **Thurs, Nov 12:** (possible quiz would cover readings and class discussion for 11/10) **Instructor Case Presentation and Class Discussion: Gulf (No student write up required)**

- **Tues, Nov 17: (possible quiz would cover readings and class discussion for 11/10 or the Gulf Case) Private Equity and LBOs**

– **Readings**

- \* BMA Chapter 33 ( Sections 33.1-33.3) or RWJ Chapter 29
  - \* Jensen, “Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers,” B
  - \* Schleifer and Vishny, “Management Buyouts as a Response to Market Pressure,” B.
  - \* Schleifer and Vishny, “Value Maximization Process,” B
  - \* “Leveraged Buyouts,” B
  - \* Bhidé, “Reversing Corporate Diversification,” B.
  - \* Kaplan and Stein, “The Evolution of Buyout Pricing and Financial Structure (or, What Went Wrong) in the 1980’s,” B.
  - \* Allen, “The Evolution of Financial Structures and Strategies,” B.
  - \* Kaplan and Stromberg, "Leveraged Buyouts and Private Equity" B
- **Thurs, Nov 19: (possible quiz would cover readings and class discussion for 11/17) Instructor Case Presentation and Class Discussion: Philip Morris and Kraft (No student write up required)**
  - **Tues, Nov 24: (possible quiz would cover RJR Nabisco Case) Class Discussion: RJR Nabisco (Student write up required)**
  - **Tues, Dec 1: (No quiz on this day): Instructor Case Presentation and Class Discussion: Seagate Technology Buyout (No student write up required)**
  - **Thurs, Dec 3: (possible quiz would cover the case due this day) Class Discussion: Case TBA\* (Student write up required. Worth 12.5% of the course grade.)**
  - **Tues, Dec 8: (possible quiz would cover readings and class discussion for 11/17, Philip Morris and Kraft Case or the Seagate Technology Buyout Case) Topic TBA**
  - **Thurs, Dec 10: (possible quiz would cover the case due this day) Class Discussion: Case TBA\* (Student write up required. Worth 12.5% of the course grade.)**