

FNCE 203 – ADVANCED CORPORATE FINANCE
SPRING 2010

Instructor: Professor Todd Gormley

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Class Times: Section 01: Monday/Wednesday, 9:00 – 10:20 AM at JMHH G50
Section 02: Monday/Wednesday, 10:30 – 11:50 AM at JMHH G50

Office Hours: Monday 4-5 PM, Thursday 1-2 PM, or by appointment.
(Outside of the classroom, this is the best way to interact with me.)

Teaching Assistants: Wang Liao E-mail: wliao@wharton.upenn.edu
Sarah Hellman E-mail: hellman@wharton.upenn.edu
(You can contact any of the TAs if you have questions.)

Office Hours: Wednesday, 3:00-6:00 p.m. at SHDH 2004
[The TA office is located just outside the Finance Department entrance.]

Course Websites: webcafe.wharton.upenn.edu & www.study.net

Course Description:

The objective of this course is to study the major decision-making areas of managerial finance and some selected topics in financial theory. The course reviews the theory and empirical evidence related to the investment and financing policies of the firm and attempts to develop decision-making ability in these areas using both lectures & cases.

This course serves as a complement and supplement to FNCE 100. Some areas of financial management not covered in FNCE 100 are covered in FNCE 203. These may include leasing, mergers and acquisitions, corporate reorganizations, financial planning and working capital management, and some other selected topics. Other areas that are covered in FNCE 100 are covered more in depth and more rigorously in FNCE 203. These include investment decision making under uncertainty, cost of capital, capital structure, pricing of selected financial instruments and corporate liabilities, and dividend policy.

Reading Materials:

1. The recommended textbook is: *Principles of Corporate Finance*, by R. Brealey, S. Myers, and F. Allen, 9th edition, McGraw Hill, 2008. (BMA)

This is a recommended textbook because some lectures will closely follow the book, but lectures will be self-contained and it is possible to complete this course successfully without the textbook. Older versions of the book are fine, and a copy of the textbook will also be on reserve in Lippincott Library.

2. Required bulk pack (BP) of readings & cases: available for purchase, www.study.net

This is a required bulk pack for purchase on www.study.net. While it may be tempting to share passwords in order to bypass the online access charge, please keep in mind that Study.Net pre-registers students by means of a university enrollment-feed, and hence, both Study.Net and Wharton will know which students have or have not paid for their online access.

3. Further material distributed in class and on webCafé

Prerequisites: FNCE 100, FNCE 101.

Study Groups:

The class will be organized into study groups, with a maximum of four people in a group and a minimum of three members. You are free to choose your own members, and group members may span sections. These groups will write detailed reports on eight cases and make at least one in-class presentation together. Because groups will make at least one in-class presentation, you may want to factor this in when you choose your group to make sure you can all attend that particular section on the day you present. Once you have chosen your group, you should register your group online at webCafé. Groups must be formed by January 25, and if you have difficulty finding a group, please let me know.

WebCafe:

Important course materials such as lecture notes, required assignments, worked solutions to problems, and other useful information will be available on the course web page at webCafé: <http://webcafe.wharton.upenn.edu/>. If you are a non-Wharton student unfamiliar with webCafé, you may need to create a Wharton computing account prior to using webCafé. You can do that at: <http://accounts.wharton.upenn.edu>. If you are still unable to access webCafé after setting up a Wharton computing account, you should contact me.

Written Case Analysis:

Groups will be asked to write detailed reports on the eight cases. Each report should include 2-4 pages of analysis (typed and double-spaced) with references to an unlimited number of tables, figures, and notes attached as appendices. The analysis will be preceded by a one page, double-spaced executive summary. (This one page does not count towards the 2-4 pages of analysis).

The report should address the suggested questions for the study case (which will be detailed on the course site at Wharton webCafé), but should not be written in the form of answers to these questions or be confined to these issues only. Rather, the report should be a complete review of the situation analyzed and address all points believed to be important for the analysis. Written case analyses are due at the start of class on assigned dates. No late submissions will be accepted.

A Note about Cases: The objective of this course is to develop decision-making ability based on corporate finance theory. Hence, it combines lectures with case analysis. The purpose of the cases is not to introduce these topics, but to further examine the theoretical concepts and models of finance and how they can be applied to reasonably realistic situations. It should be noted that there are usually no absolute right solutions for study cases. Rather, the best cases are deliberately written to be ambiguous. While there are no right answers, there are good arguments and bad arguments. This course is designed to help the student learn to distinguish between sensible and weak arguments, but not to provide detailed answers to specific cases. Thus, “case solutions” will not be handed out, though I will often provide you with “suggested solutions”. If you are uncomfortable with ambiguity, this class may not be for you.

Case Presentation:

Each group will be asked to make at least one in-class presentation of one of the eight assigned case analyses. This presentation can include handouts, Powerpoint slides, etc. and should last for 15 minutes. Many of these case presentations will occur in the last three lectures of the course (after the second exam), but there will be at least one presentation for each case covered in the class. A list of the available slots is given on webCafé, and study groups must sign up for their slot on webCafé by Jan. 25. Slots are first-come, first-serve, so the sooner you create your group, the more choices you will have. Depending on class size, some groups may be asked to volunteer for a second presentation. Groups that make a second presentation will have the option of taking the highest score of their two presentations. The presenting group may also need to field questions from their classmates for about five minutes after presenting their case.

Exams:

There are in total two exams. Exams are not optional, and both exams will be given during normal class times (see schedule below for details). The second exam will cover new and old material; that is, it is a cumulative exam.

Exams are closed-book and closed-notes. Calculators are allowed and necessary for the exam, but no cell phones with calculators or laptops are allowed during exams. The exams are intended to be time-sensitive. Unless you meet regularly with your group and work through the case analyses, you will be unable to complete the exams on time.

The exam times are *non-negotiable*. If you have a conflict, you must inform me by the end of the second week of the course (i.e. Please check now to ensure the exam days do not conflict with a religious holiday, etc.). If you think you will miss an exam (1) contact me as soon as possible and (2) bring reliable proof of absence (hospital receipt, copy of obituary, etc.). Without clear and hard evidence, you will get no credit and will not be allowed to retake the exam.

Grading:

Your grade for the course will be determined by written case analyses, a presentation, and exams. There will be a total of 150 points available, and the points are allocated as follows:

Written Case Analysis	40 points (i.e. 5 points each)
Case Presentation	10 points
Exam #1	50 points
Exam #2	50 points

Grades are *non-negotiable*, and the quality of your written work and group presentation is a matter left to the course instructor's judgment. Grade appeals (e.g. because your points weren't added up correctly) must be submitted within a week after the grades are released. If you have a question about feedback or an assigned grade, please ask.

Code of Ethics:

I take the matters of academic integrity seriously and expect that you do, too. Submitted assignments for grading should be your own or your team's own work only. Most cases in this course involve actual companies. You may use firm specific or market data that are publicly available for your analysis. You cannot, however, use old notes, handouts, or solutions to the cases from previous or other sections of this course or similar courses elsewhere for your written reports and class discussions. Failure to observe this rule, will at a minimum, result in receiving zero points on that assignment, and may result in an automatic failing grade for the course and referral to the Office of Student Conduct. Refer to the Code of Academic Integrity if you have any questions.

Attendance and Class Etiquette

- **Behavior:** Classroom interaction will be conducted in a spirited manner, but always while displaying professional courtesy and personal respect.
- **Preparation:** Students are expected to complete the readings prior to each class session and be prepared to actively participate in class discussion.
- **Distractions:**
 - *Exiting and Entering during class:* Please keep this to a minimum.
 - *Laptop, PDA, and Other Electronic Device Usage:* Students are expected to not use laptops or PDAs during class. However, laptops will be allowed for students that wish to take notes on them, but in this case, these students will need to get permission beforehand and then send me an e-mail copy of their typed notes after each lecture. Accessing e-mail or the Internet during class is not permitted as they can be distracting for peers and faculty.

Office Hours and E-mail:

If you have any questions or need individual assistance, please visit me during my office hours. If you are unable to make my office hours, just e-mail me so that we can arrange a mutually convenient time to meet in my office. You may also send me questions via e-mail, but be forewarned... I don't usually check e-mail at 3:00 a.m. the night before the exam. ☺

Class Schedule:

The tentative class schedule is given below. The topics covered and the date in which they are covered may change as the semester progresses, but if this occurs, I will notify you of any changes. The readings refer to chapters in 9th Edition of *Principles of Corporate Finance*, by Brealey, Myers, and Allen (BMA). Some readings will also be found in the bulk pack (BP) on study.net.

Tips for Doing Well in My Course:

Do the work! If you rely on your group members to complete written case analyses for you, you will fail to learn the material and inevitably perform poorly on the exams. Doing well on the exams is crucial to receiving a solid grade in the course, more so than just handing in your case analyses. However, turn in your case analyses! Failure to do so will hurt your final grade.

Student-Faculty Meals Program:

For students that are interested, I will hold at least 2 student-faculty meals this semester. (For those that aren't aware, the student-faculty meal program is a chance for you to have an interaction (and free meal) with me outside of the classroom or usual office hours). The dates for these meals will be 6 p.m. on March 25 and April 6. A sign-up sheet will be posted on webCafé on February 1, and more dates may be added if there is demand. There is no extra credit given for participating; this is completely voluntary.

Picking up Graded Cases:

In general, I will try to bring graded cases with me to class. But, if you miss class, you can collect your graded materials from your team folder in SH-DH. There is a filing cabinet with my name on it across from office #2305 that will contain a folder for each team.

SCHEDULE OF CLASSES

Class # and (Date)	Topics	Readings	Assignments
1 (01/13)	<u>Lecture:</u> FCF & Capital Budgeting	BMA; 2.1-2.2, 6.1, 7.1-7.2 Benninga & Sarig, Ch. 2 (BP)	
2 (01/20)	<u>Lecture:</u> Risk and CAPM	BMA; 9.2-9.3, 10.1-10.2	
3 (01/25)	<u>Lecture:</u> Cost of Capital	BMA; 20.1-20.3	<i>Create your teams and sign up for a presentation!</i>

4 (01/27)	<u>Lecture:</u> Valuation	BMA; 13.2 & 20.4-20.5 Lowenstein, “Rethinking Latest Economic Elixir” (BP) Benninga & Sarig, pp. 305-19 (BP)	
5 (02/01)	<u>Case #1:</u> Harris Seafoods, Inc.	HBS #281-054	<i>Case #1 Written Analysis: (due at beginning of class)</i>
6 (02/03)	<u>Case #2:</u> Marriot: Cost of Capital	HBS #289-047	<i>Case #2 Written Analysis: (due at beginning of class)</i>
7 (02/08)	<u>Lecture:</u> Leveraged Transactions	BMA; 33.1, 33.3 Inselbag and Kaufold (BP) Shleifer and Vishny (BP)	
8 (02/10)	<u>Lecture:</u> Leasing	BMA; 7.3 & 26	
9 (02/15)	<u>Case #3:</u> Congoleum Corporation	HBS #287-029	<i>Case #3 Written Analysis: (due at beginning of class)</i>
10 (02/17)	<u>Case #3 continued:</u> Congoleum Corporation	HBS #287-029	
11 (02/22)	<u>Exam 1 Review</u> <ul style="list-style-type: none"> • Review Key Concepts • Go Over Practice Exam 		
12 (02/24)	<u>Exam 1</u>		
13 (03/01)	<u>Lecture:</u> Capital Structure, Part I	BMA; 18-19.1	
14 (03/03)	<u>Lecture:</u> Capital Structure, Part II	BMA; 19.2-19.4 Gifford (BP)	
15 (03/15)	<u>Lecture:</u> Dividend Policy	BMA; 17	
16 (03/17)	<u>Case #4:</u> American Home Products	HBS #283-065	<i>Case #4 Written Analysis: (due at beginning of class)</i>
17 (03/22)	<u>Case #5:</u> FPL Group, Inc. (A)	HBS #295-059	<i>Case #5 Written Analysis: (due at beginning of class)</i>

18 (03/24)	<u>Lecture:</u> Options, Warrants, Convertibles I	BMA; 21-22.5	
19 (03/29)	<u>Lecture:</u> Options, Warrants, Convertibles, II	BMA; 23.1, 25.6 Jen, Choi, and Lee (BP)	
20 (03/31)	<u>Case #6:</u> Corning, Inc.	UVA-F-1339, version 2.6	<i>Case #6 Written Analysis: (due at beginning of class)</i>

21 (04/05)	<u>Lecture:</u> Mergers & Acquisitions, Part I	BMA; 32 Lowenstein, “Why All Takeovers Aren’t Created Equal” (BP) Jensen, 1986 (BP)	
22 (04/07)	<u>Lecture:</u> Mergers & Acquisitions, Part II	BMA; 32 Lowenstein, “Why All Takeovers Aren’t Created Equal” (BP) Jensen, 1986 (BP)	
23 (04/12)	<u>Review for Exam #2</u> <ul style="list-style-type: none"> • Review Key Concepts • Go Over Practice Exam 		
24 (04/14)	<u>Exam #2</u>		
25 (04/19)	<u>Case #7:</u> Acquisition of Consolidated Rail Corporation A and B	HBS #298-006 HBS #298-095	<i>Case #7 Written Analysis: (due at beginning of class)</i>
26 (04/21)	<u>Case #7 continued:</u> Acquisition of Consolidated Rail Corporation A and B	HBS #298-006 HBS #298-095	
27 (04/26)	<u>Case #8:</u> Kennecott Copper Corporation	HBS #278-143	<i>Case #8 Written Analysis: (due at beginning of class)</i>