

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

PROFESSOR RICHARD KIHLLSTROM

Fall, 2011

• **Readings**

- Brealey, Myers and Allen, *Principles of Corporate Finance*, Ninth or Tenth Edition, McGraw Hill, 2008 (BMA), Berk and DeMarzo, *Corporate Finance*, First or Second Edition, Addison Wesley 2007 (BD), Ross, Westerfield and Jaffe, *Corporate Finance*, Eighth or Ninth Edition, McGraw Hill, 2008 (RWJ)
  - \* You will only need one of these three texts. The editions listed above are the current editions and the ones used in Finance 100 last year and the year before.
  - \* Most, but not all, of the chapters assigned in these texts have been covered in Finance 100.
- 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. Normally all students in a group should be registered in the same section. Exceptions to this rule will be permitted, but only with explicit permission. Groups should be formed by Tuesday, Sept. 20.** 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 written 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 between eight and eleven 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 20.** There will be no quiz on Thursday, October 13, the first class after the fall break. There will be no quiz on Tuesday, November 22, the class before the Thanksgiving break nor on Tuesday, November 29, 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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- **Office Hours:** Mon and Tues 4:30-5:30 and by appointment
- **Thurs, Sept 8: Course Overview, Review and Introduction**

– **Readings**

- \* Benninga and Sarig, Chapters 1 and 2, "Financial Valuation Tools", B (Second item on Study.Net)
- \* (For Review) BMA (10th Edition), Chapters 1-11, BMA (9th Edition), Chapters 1-12, RWJ (8th Edition) Chapters 1-12 or RWJ (9th Edition), Chapters 1-13, BD Chapters 1-12.
- \* H, Chapters, 1-4, 7 and 9 (pp. 347-365)

- **Tues, Sept 13 and Thurs, Sept 15: Financial Statements, UFCF, 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 (10th Edition), Chapters 28-30, BMA, (9th Edition), Chapters 29-31, or RWJ Chapters 26-28, BD Chapter 7.
- \* H, Chapters, 1-4, 7 and 9 (pp. 347-365)
- \* Note on Bank Loans, B

- **Tues, Sept 20: (First date for a possible quiz!) Risk Adjusted Discount Rates and Instructor Case Presentation and Class Discussion: Comsat (No student write up required)**
  - **Material covered by a possible quiz:** Readings and class discussion for 9/8-9/15 and The Clarkson Case
  - **Readings**
    - \* “Diversification, The Capital Asset Pricing Model, and the Cost of Equity Capital,” B
    - \* BMA (10th Edition), Chapters 5-9, BMA, (9th Edition), Chapters 6-10, RWJ (8th Edition), Chapters 6, 9-12, RWJ (9th Edition), Chapters 5, 6, 10-13, or BD Chapters 6, 7, 10-12
    - \* H, Chapter 8
  
- **Thurs, Sept 22 and Tues, Sept 27: Leverage, the Discount Rate and WACC and Instructor Case Presentation and Class Discussion: Midland Energy (No student write up required)**
  - **Material covered by a possible quiz on 9/22 and 9/27:** Readings and class discussion for 9/20 and The Comsat Case
  - **Readings**
    - \* BMA (10th Edition), Chapters 17-19, BMA, (9th Edition), Chapters 18-20, RWJ, (8th Edition), Chapters 14-17, RWJ, (9th Edition), Chapters 15-18 or BD Chapters 14-16, 18, 19
    - \* “Financial Leverage, The Capital Asset Pricing Model, and the Cost of Equity Capital,” B.
  
- **Thurs, Sept 29 and Tues, Oct 4: Instructor Case Presentation and Class Discussion: Harris Seafood (No student write up required)**
  - **Material covered by a possible quiz on 9/29 and 10/4:** Readings and class discussion for 9/22 and 9/27 and The Midland Energy Case
  
- **Thurs, Oct 6: Class Discussion: The All America Pipeline Case (Student write up required.)**
  - **Material covered by a possible quiz:** All America Pipeline Case
  
- **Tues, Oct 11: No Class: Fall Break**

- **Thurs, Oct 13: (No quiz on this day): Three DCF Approaches: Discounting UFCF at WACC, APV and Discounting Flows to Equity at ROE**
  - **Readings**
    - \* BMA (10th Edition), Chapter 19, BMA, (9th Edition), Chapter 20, RWJ, (8th Edition), Chapter 17, RWJ, (9th Edition), Chapter 18 or BD Chapter 18
    - \* Inselbag and Kaufold, “Two DCF Approaches for Valuing Companies Under Alternative Financing Strategies (and How to Choose Between Them),”
  
- **Tues, Oct 18: Capital Structure and Bond Ratings**
  - **Material covered by a possible quiz:** Harris Case or All America Pipeline Case
  - **Readings**
    - \* BMA (10th Edition), Chapters 17-19, BMA, (9th Edition), Chapters 18-20, RWJ, (8th Edition), Chapters 14-17, RWJ, (9th Edition), Chapters 15-18 or BD Chapters 14-16, 18-19
    - \* H, Chapters 6 and 8
    - \* Barclay, et.al., “The Determinants of Corporate Leverage and Dividend Policy,” B.
  
- **Thurs, Oct 20: Class Discussion: American Chemical (Student write up required)**
  - **Material covered by a possible quiz:** American Chemical Case
  
- **Tues, Oct 25: Instructor Case Presentation and Class Discussion: American Home Products (No student write up required)**
  - **Material covered by a possible quiz:** Readings and Class Discussion 10/18

- **Thurs, Oct 27: Bankruptcy and Instructor Case Presentation and Class Discussion: Continental Airlines-1992 (No student write up required)**
  - **Material covered by a possible quiz:** Readings and Class Discussion for 10/18 and American Home Products Case
  - **Readings**
    - \* BMA (10th Edition), Chapters 17-19, 23 and 32 (section 32.4), BMA (9th Edition), Chapters 18-20, 24 and 33 (section 33.4), RWJ, (8th Edition), Chapters 14-17 and 30, RWJ, (9th Edition), Chapters 15-18 and 30 or BD Chapters 14-16, 18-19
    - \* “Note on Bankruptcy in the US,” B
  
- **Tues, Nov 1: Class Discussion: Case TBA\* (Student write up required. Worth 12.5% of the course grade.)**
  - **Material covered by a possible quiz:** The case due this day
  
- **Thurs, Nov 3: Takeovers, Mergers and “The Market for Corporate Control”**
  - **Material covered by a possible quiz:** Readings and Class Discussion for 10/27 and Continental Airlines Case
  - **Readings**
    - \* BMA (10th Edition) Chapter 31, BMA (9th Edition), 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, “Value Maximization and the Acquisition Process,” B
    - \* Schleifer and Vishny, “The Takeover Wave of the 1980’s” B
    - \* “Why All Takeovers Aren’t Created Equal,” B
    - \* Jensen, “Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers,” B

- **Tues, Nov 8: Instructor Case Presentation and Class Discussion: Gulf (No student write up required)**
  - **Material covered by a possible quiz:** Readings and Class Discussion for 11/3
- **Thurs, Nov 10: Class Discussion: Case TBA\* (Student write up required. Worth 12.5% of the course grade.)**
  - **Material covered by a possible quiz:** The case due this day
- **Tues, Nov 15: Private Equity and LBOs**
  - **Material covered by a possible quiz:** Readings and Class Discussion for 11/3 and The Gulf Case
  - **Readings**
    - \* BMA (10th Edition), Chapter 32 ( Sections 32.1-32.3), BMA (9th Edition), Chapter 33 ( Sections 33.1-33.3), or RWJ Chapter 29
    - \* Jensen, “Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers,” B
    - \* “Leveraged Buyouts,” B
    - \* Bhide, “Reversing Corporate Diversification,” B.
    - \* Allen, “The Evolution of Financial Structures and Strategies,” B.
    - \* Kaplan and Stromberg, "Leveraged Buyouts and Private Equity" B
- **Thurs, Nov 17: Class Discussion: Mercury Athletic (Student write up required)**
  - **Material covered by a possible quiz:** Mercury Athletic Case
- **Tues, Nov 22: (No quiz on this day): Instructor Case Presentation and Class Discussion: Philip Morris and Kraft (No student write up required)**
- **Tues, Nov 29: (No quiz on this day): Instructor Case Presentation and Class Discussion: Seagate Technology Buyout (No student write up required)**

- **Thurs, Dec 1: Class Discussion: RJR Nabisco (Student write up required)**
  - **Material covered by a possible quiz:** The RJR case
  
- **Tues, Dec 6: Topic TBA**
  - **Material covered by a possible quiz:** Readings and class discussion for 11/15, Philip Morris and Kraft Case or the Seagate Technology Buyout Case
  
- **Thurs, Dec 8: Class Discussion: Case TBA\* (Student write up required. Worth 12.5% of the course grade.)**
  - **Material covered by a possible quiz:** The case due this day