1. **Introduction**

This course is a sequel to Business Associations and is designed to allow you to work with accountants and investment bankers, not to make you an accountant or investment banker. The course is organized around four basic units: Valuing the Firm; Financing the Firm; Selling the Firm; and The Firm in Financial Distress.

The course will involve some math, especially in the valuation unit, but nothing beyond algebra. A financial calculator is not necessary, but Excel is needed for this class.

2. **Materials; Reading Assignments**

The required materials for this class are Lubben, *Corporate Finance* (2014), and various supplemental documents that I will post on the class Blackboard page. There is also a statutory supplement on Blackboard that begins to be relevant at Chapter 12. Reading assignments begin on the third page of this syllabus.

I've recommended two additional books: Ayer, *Guide to Finance for Lawyers* and Bainbridge, *Mergers and Acquisitions*. The first is good for the unit on valuation, and the second is good for those of you who did not cover mergers in your BA class. Both are optional, but recommended if you need more help in either area.

3. **Class Preparation and Participation**

I call on people in class and expect everyone to be prepared. If there is a day when you cannot be prepared let me know by email before class and I will not call on you that day. Excessive requests to “opt out” of class participation will affect your final grade.

In addition to reading the assigned pages in the texts, you must read the other assigned materials.

In designing my lectures, I assume that everyone has read the materials and often do not expressly reference them in my lectures. You must attend class and must do the reading in order to follow what is going on in the class.
4. Grading; Examination

The first, final, and only exam will be a **24-hour take-home exam**. Regular preparation, class participation, and analogous intangibles are important to the overall success of the course. I will take these factors into account and adjust grades accordingly, consistent with school policy.

As past students can attest, attendance in this class is rather important. Consider yourself forewarned.

5. Office Hours; Contact Information

I am in my office most weekdays (Room 521). Feel free to come by to discuss anything related to the class. Questions or requests to schedule a meeting at a specific time can be sent to me via email (my preferred means of communication).

6. Reading Assignments

Materials not in the book are on Blackboard. The statutes are available in the statutory supplement, also on Blackboard. I’ve indicated key statutes on the syllabus, but you should read all relevant statutes before class.

**Please prepare all problem sets in the materials and be prepared to discuss them in class.**

Part 1: Valuing the Firm

Class 1: Understanding the Firm’s Business (reading and understanding a 10-K; introduction to accounting; EBITA and other measures of firm health)

- Lubben Introduction and Chapter 1
- [http://goo.gl/OrYHgZ](http://goo.gl/OrYHgZ)
- **Dynegy Annual Report:**
  - On Blackboard
  - Assume a law firm partner has asked you to “get smart” on the client’s business so you can participate in a meeting in one hour. Read accordingly.

Class 2: The Time Value of Money (time value of money; one period present values; multiple period present values; perpetuities and annuities)

- Lubben Chapter 2
Class 3: Discount Rates; The Net Present Value Rule and Some Competitors (NPV; internal rate of return; payback rule and hurdle rates; choosing among projects with unequal cash flows)

- Lubben Chapters 3 and 4
- Chapter 4 Spreadsheet

Class 4: Valuing Debt (price/yield relationship; term structure; bond cash flows; zero coupon bonds; valuation of bonds as annuities; yield to maturity)

- Lubben Chapter 5

Class 5: Risk and Return (systematic vs. firm-specific risk; beta; diversification; expected return; arbitrage and the law of one price; short selling and its limits)

- Lubben Chapter 6

Class 6: The Capital Asset Pricing Model (efficient capital markets hypothesis; CAPM and its flaws)

- Lubben Chapter 7
- http://goo.gl/hJcxU

Class 7: Capital Structure as Economic Dream (the debt-equity choice in the abstract; Modigliani-Miller I and II)

- Lubben Chapter 8
- Please also start to read Chapter 9, which we will start if there is time.

Class 8: Some Real World Considerations (the tax benefits of debt; the costs and benefits of leverage, dividends and dividend smoothing; share repurchases; taxation of dividends; risk adversity and cash retention; conglomerates and spinoffs)

- Lubben Chapter 9 & 10

Class 9: Valuation with Debt (WACC; integration of CAPM and WACC in discounted cash flow valuation; other models)

- Lubben Chapter 11
Part 2: Financing the Firm

Class 10: Introduction (brief review of Business Associations; common stock; the stock market; separation of ownership and control; dividend payments as perpetuities)

• Lubben Chapter 12

Class 11: Preferred Shares (key types of preferred shares; certificates of designation; rights of preferred shareholders)

• Lubben Chapter 13

Class 12: Bonds and Notes I (Trust Indenture Act; negative pledge and other key clauses; call provisions; subordinated debt; defeasance)

• Lubben Chapter 14
  • Dynegy Note and Indenture

Class 13: Bonds and Notes II (caselaw)

• Lubben Chapter 15

Class 14: Loan Agreements (loan agreements and their terms (e.g., what is a “yank a bank” provision?); revolving, term, and swing line pieces of loans; role of loans in company’s cash management system; secondary markets for loans; relations among the lenders; second lien and mezzanine debt)

• Lubben Chapter 16
  • Dynegy Credit Agreement
    o See the “checklist” for specific clauses to focus on

Class 15: Options, Warrants, and Convertibles (the basic instruments; anti-dilution provisions; option pricing – theory and reality; “death spiral” convertibles)

• Lubben Chapter 17
  • http://goo.gl/2JEjDi

Class 16: Derivatives (forwards and futures; interest rate, currency, total return and credit default swaps; hedging and speculative uses of derivatives; ISDA’s role and documents; collateral requirements; regulation under Dodd-Frank – end user exemption, etc.; special bankruptcy “safe harbors” for derivatives)

• Lubben Chapter 18
  • ISDA Equity Definitions (skim)
Class 17: Asset Securitization (deal structures; regulatory and cost of capital motivations; CDOs; synthetic securitization; conduits; transactional problems with MBS)

• Lubben Chapter 19

Part 3: Selling the Firm

Class 18: Mergers (merger agreements and key clauses (reps and warranties, MAC clauses, etc.); deal structures; taxes; deal protections)

• Lubben Chapter 22
• Del. § 251
• **Dynegy Merger Agreement**

Class 19: Tender offers (Federal Williams Act regulations; friendly and hostile deals; poison pills; two-step transactions)

• Lubben Chapter 23
• Williams Act (1934 Act sections 13 & 14) and rules thereunder
• **Dynegy Pill**

Class 20: Asset sales and successor liability (asset purchase agreements; successor liability; deal structures)

• Lubben Chapter 24
• Del. § 271

Class 21: Leveraged buyouts and distressed acquisitions (motivations; LBO financing; fraudulent transfer, lender default and other deal risks; WARN Act and other hurdles to the private equity model)

• Lubben Chapter 25
• Delaware UFTA
Part 4: The Firm in Financial Distress

Class 22: Exchange Offers, Workouts, Prepacks (distressed exchange offers under the Trust Indenture Act and other securities laws (registered vs. unregistered exchange offers); standstill agreements with creditors; the CDS problem; the general problem of distressed debt trading during negotiations; tax issues regarding NOLs; securities law and pre-bankruptcy solicitation; reﬁling problems)

- Lubben Chapters 26 & 27
- 11 U.S.C. §§ 1125(g); 1126

Class 23: Introduction to Chapter 11 (overview of key concepts like estate, automatic stay, and debtor in possession; DIP ﬁnancing and “ﬁrst day” motions; international corporate groups; the controversy over “forum shopping” in large cases)

- Lubben Chapter 28
- http://goo.gl/3RGiYX
- http://goo.gl/P9Mwcs
- Dynegy Bankruptcy Materials

Class 24: Chapter 11 Plans (negotiation of the plan; buying the “fulcrum security” and claims trading; voting and cramdown; the balance of power among stakeholders)

- Lubben Chapters 29

Class 25: 363 sales (363(f) as solution to successor liability problems; credit bidding; lender control of chapter 11 process)

- Lubben Chapter 30
- 11 U.S.C. §§ 363

Review Session during Class 26.

Tuesday, July 8, 2014