

Corporate Finance Syllabus (Professor Lynn Bai, spring 2013)

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Requirements

- 1) **TWEN Registration**: I have created a TWEN page for this course. Please register so that you can access course materials and receive emails from me.
- 2) **Homework**: I will assign homework periodically as we finish topics listed on the syllabus. Homework is due one week after the assignment. Homework accounts for 30% of your final grade. You can seek help from each other in completing the homework.
- 3) **Term Paper**: You are required to write a paper of up to *15 pages* (including footnotes/endnotes and double spaced) on *any topic* in the field of corporate finance that is of *contemporary importance* and *controversial*. The paper is due on May 3, 2013. It accounts for 70% of your final grade.

The following is what I look for in grading your paper:

- a) A good overall organization of the paper
- b) A clear statement of the issue and its importance
- c) A clear statement of competing arguments
- d) Discussion of existing literature on the issue
- e) Author's own opinion and/or proposal
 - i) The novelty of the author's opinion/proposal
 - ii) Arguments convincing?

There are many sources where you can identify such issues, including, e.g., reading business/finance/securities journals, checking out corporate/securities law blogs and the SEC website about rule proposals and the websites of major stock exchanges, or even google-searching by using key words of a corporate finance subject matter.

- 4) **A note on class attendance and participation**: I understand that occasionally there may be conflicts in your schedules so I do not require you to be present in every class. However, I reserve the right to move your grade down one level if you are constantly absent from class.
- 5) **Reading Assignments**: Reading assignments are listed on this syllabus. Materials that are not readily available from Westlaw or Lexis/Nexis are posted on TWEN. Depending on your academic and working experience, you may find some materials more challenging than others. Do your best to finish reading assignments prior to class. The syllabus is an aid for planning and I will follow it as much as possible, but I also reserve the right to change it from time to time as I think appropriate. Reading materials include materials that I have collected over the years as well as selected pages from the following books:

- a) Fundamentals of Corporate Finance, 8th ed., by Ross, Westerfield and Jordan (“RWJ”), McGraw-Hill.
- b) The Legal Aspects of Corporate Finance, by Richard T. McDermott, Lexis/Nexis (“McDermott”).
- c) The Handbook of Fixed Income Securities, 7th ed., by Frank J. Fabozzi, McGraw-Hill (“Fabozzi”).

Chapter 1 Equity Financing

- 1) Initial public offering (“IPO”)
 - a) An Overview of the IPO process: see Practising Law Institute material: www.pli.edu/product_files/EN00000000050080/89220.pdf (on TWEN).
 - b) Part I of “Stabilization Activities by Underwriters after Initial Public Offerings”, Reena Aggarwal, Journal of Finance, VOL. LV, NO. 3 • JUNE 2000) (on TWEN).
 - c) IPO underpricing: EBC I, Inc. v. Goldman Sachs & Co., 5 N.Y.3d 11, 832 N.E.2d 26 (2005)
 - d) Problematic practice of IPO share allocation
 - i) NYSE/NASD IPO Advisory Committee Report (2003) (on TWEN)
 - ii) In re: INITIAL PUBLIC OFFERING SECURITIES LITIGATION, 241 F.Supp.2d 281 (2003)
- 2) ADRs and GDRs
 - a) Guide to Public ADR Offerings in the United States (April, 2011) (on TWEN)
 - b) JP Morgan, Global Depositary Receipts Reference Guide (optional reading) (on TWEN)
- 3) Rights offerings
 - a) RWJ 534 – 542 (on TWEN)
 - b) Frequently asked Questions about Rights Offerings (Pinedo of Morrison & Forster LLP 2009) (on TWEN)
 - c) Dilution of existing shareholding: Greenbaum v. American Metal Climax, Inc., 27 A.D.2d 225 (1967)
 - d) Sample rights offering prospectus (on TWEN)
- 4) Stock dividends and stock splits
 - a) RWJ 612 – 616 (on TWEN)
 - b) Applebaum v. Avaya, Inc., 812 A.2d 880 (2002)
 - c) When Controlling Shareholders Squeeze Out Minority Shareholders by Reverse Stock Split in Close Corporations – A Proposal for Kansas Courts, 50 U. Kan. L. Rev.(April, 2002)
- 5) Stock repurchase
 - a) RWJ 609 – 612 (on TWEN)
 - b) Heckmann v. Ahmanson, 166 Cal. App. 3d 119 (1985)
 - c) In re SPM Manufacturing Corporation, 163 Bankr. 411 (1994)
 - d) Unocal Corp. v. Mesa Petroleum Co, 493 A. 2d 946 (1985)

Chapter 2 Valuing Corporations and Stocks

- 1) Discounting future cash flows: RWJ 122 – 133, 146 – 153, 264 – 285 (on TWEN)
- 2) The dividend discount model: RWJ 235 – 244 (on TWEN)
- 3) Gabelli & Co. Profit Sharing Plan v. Liggett Group, Inc., 479 A.2d 276 (1984)
- 4) Financial statement ratio analysis (on TWEN)

Chapter 3 Debt Financing

- 1) Long-term corporate debt security: corporate bonds
 - a) Bond features and markets
 - i) Bond Basics Tutorial (on TWEN)
 - ii) Floating rating bonds, Fabozzi 373 – 383 (on TWEN)
 - b) Bond valuation: RWJ 193 – 203 (on TWEN)
 - c) Yield curve, spot rates and forward rates (on TWEN)
 - d) Bond price sensitivity to interest rate movements – duration and convexity
 - i) Duration and Convexity, University of Virginia Darden Graduate School of Business course material (on TWEN)
 - ii) SEC order against Charles Schwab (Jan. 2011) (on TWEN)
 - e) Convertible bonds
 - i) Convertible bond features: RWJ 466 – 468 (on TWEN), McDermott 409 – 414 (on TWEN)
 - ii) Indenture provisions relating to convertible securities: McDermott 414 – 460 (optional reading) (on TWEN)
 - f) Bond issuance
 - i) Corporate Bond Operational Underwriting Process, by The Bond Market Association (on TWEN)
 - g) Debentures, indentures and legal issues
 - i) Sample legal opinion and sample debenture forms (McDermott 135 – 146, optional reading) (on TWEN)
 - ii) Express and implied covenants of indentures
 - (1) Rievman v. Burlington Northern Railroad Company, 618 F. Supp. 592 (1985)
 - (2) Metropolitan Life Insurance Company v. RJR Nabisco, Inc., 716 F. Supp. 1504 (1989)
 - iii) Redemption provisions
 - (1) Morgan Stanley & Co. v. Archer Daniels Midland Co., 570 F. Supp. 1529 (1983)
 - iv) “No action” clause
 - (1) Rabinovitz v. Kaiser-Frazer Corp., 111 N.Y.S.2d 539 (1952)
 - v) “All or substantially all” assets

- (1) Story v. Kennecott Copper Corp., 394 N.Y.S.2d 353 (1977)
- (2) Katz v. Bregman, 431 A.2d 1274 (1981)
- vi) Subordinated debt securities
 - (1) In re Envirodyne Industries, Inc., 29 F.3d 301 (1994)
- vii) Duty to trustee to bondholders
 - (1) Elliott Associates v. J. Henry Schroder Bank & Trust Co. 838 F.2d 66 (1988)

2) Medium-term notes: Fabozzi 339 – 350 (on TWEN).

3) Commercial paper

- a) Fabozzi 285 – 289 (on TWEN).
- b) The Commercial Paper Market, the Fed, and the 2007-2009 Financial Crisis (on TWEN)
- c) Sample commercial paper offering memorandum (on TWEN)

Chapter 4 Derivative Securities

1) Options

- a) Basic features: RWJ 439 – 446 (on TWEN)
- b) The BS options pricing model and factors (video)
- c) Hedging with options contracts: RWJ 771 – 775 (on TWEN)

2) Swap contracts:

- a) Interest Rate Swap Pricing: A Classroom Primer (on TWEN)
- b) Valuation of “Plain Vanilla” Interest Rate Swaps (on TWEN)

3) Forward and futures contracts: RWJ 762 – 768*

4) Collateralized debt obligations and credit default swaps: Fabozzi 669 – 729 (optional reading)*

*There is a high probability that we will not be able to cover these materials in class. If we do indeed cover them, I will post reading materials on TWEN before class.