

<b>Course</b>	<b>FINC 5880 – Advanced Corporate Finance</b> Summer 2011	
<b>Instructor</b>	Name: Michael Kinnen Email: <a href="mailto:michaelkinnen94@webster.edu">michaelkinnen94@webster.edu</a> or <a href="mailto:myfinanceprofessor@gmail.com">myfinanceprofessor@gmail.com</a> Phone: (949) 232-0047	
<b>Catalog Description</b>	This advanced study of corporate financial analysis and planning includes capital budgeting, cost of funds, and capital structure and valuation. Selected topics that may be covered are leasing, mergers, takeovers, business failure, reorganization, and liquidation. A combination of problem-solving and case study methodologies is used to illustrate theories and techniques helpful in financial analysis and planning.	
<b>Prerequisites</b>	FINC 5000 (Finance), BUSN 5600 (Accounting Theory and Practice)	
<b>Learning Outcomes</b>	<b>Outcome</b>	<b>Expectation</b>
	<i>Students can determine the value of fixed income securities.</i>	Students can calculate the implied value of convertible securities as well as the value of bonds-with-warrants.
	<i>Students can analyze capital budgeting decisions using standard methodologies.</i>	Students can make capital budgeting decisions using cash flow estimates and incorporating other sources of cash, such as taxes and depreciation. Students can explain the impact of profit margin and overall firm profitability on capital budgeting decisions, particularly when outside financing may be required to be able to complete projects.
	<i>Students can explain the impact of capital structure decisions on the cost of capital and financial performance.</i>	Students can determine the impact of changes in cost of equity, cost of debt, the risk-free rate of interest, the tax rate, and the levels of debt and equity on the firm's balance sheet on the overall cost of capital and the effect on both project and firm profitability.
	<i>Students can use financial analysis to assess an organization's financial condition.</i>	Students can apply ratio and financial statement analysis skills to solve unstructured problems.
	<i>Students can construct strategies to reduce risk utilizing derivatives.</i>	Students can compute payoffs to put and call contracts and value corporate projects using the real option approach.
	<i>Students demonstrate integration of more than one area of finance when using case studies.</i>	Students can solve cases requiring integration across various finance areas.
	<i>Students demonstrate knowledge of lease analysis.</i>	Students can compare the value of leasing to that of purchasing.

<p><b>Materials</b></p>	<p><b>Text:</b> Corporate Finance (9<sup>th</sup> ed, 2009)  <b>Authors:</b> Stephen A. Ross, Randolph W. Westerfield, &amp; Jeffrey A. Jaffe  <b>Publisher:</b> McGraw-Hill/Irwin  <b>ISBN:</b> ISBN 13: 978-0-07-338233-3; ISBN 10: 0-07-338233-7                  (A paperback version of our textbook – the “International Edition” – is available but harder to find – the ISBN number is 978-0-07-131307-0; this book is around \$50.)  <b>Calculator:</b> HP 10B2 Financial Calculator (see page 4 of Syllabus for instructions)  <b>Case:</b> Purchase &amp; download before the first class meeting. If you click <a href="#">here</a> you’ll save approximately 50% off Harvard’s normal prices for these at <a href="http://www.hbsp.com">www.hbsp.com</a>.</p> <table border="1"> <thead> <tr> <th><u>Case/Background Note Title</u></th> <th><u>Product Number</u></th> </tr> </thead> <tbody> <tr> <td><i>Note on the Theory of Optimal Capital Structure</i></td> <td>279069-PDF-ENG</td> </tr> <tr> <td><i>Dividend Policy at Linear Technology</i></td> <td>204066-PDF-ENG</td> </tr> <tr> <td><i>Mercury Athletic: Valuing the Opportunity</i></td> <td>4050-PDF-ENG</td> </tr> <tr> <td><i>Arundel Partners: The Sequel Project</i></td> <td>292140-PDF-ENG</td> </tr> <tr> <td><i>Decision Trees</i></td> <td>205060-PDF-ENG</td> </tr> </tbody> </table>	<u>Case/Background Note Title</u>	<u>Product Number</u>	<i>Note on the Theory of Optimal Capital Structure</i>	279069-PDF-ENG	<i>Dividend Policy at Linear Technology</i>	204066-PDF-ENG	<i>Mercury Athletic: Valuing the Opportunity</i>	4050-PDF-ENG	<i>Arundel Partners: The Sequel Project</i>	292140-PDF-ENG	<i>Decision Trees</i>	205060-PDF-ENG														
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<p><b>Grading</b></p>	<p>Grades in FINC 5880 are based on the following point totals:</p> <table border="1"> <thead> <tr> <th><i>TOTAL POINTS</i></th> <th><i>GRADE</i></th> </tr> </thead> <tbody> <tr> <td>930 – 1000</td> <td>A</td> </tr> <tr> <td>900 – 929</td> <td>A-</td> </tr> <tr> <td>870 – 899</td> <td>B+</td> </tr> <tr> <td>830 – 869</td> <td>B</td> </tr> <tr> <td>800 – 829</td> <td>B-</td> </tr> <tr> <td>770 – 799</td> <td>C+</td> </tr> <tr> <td>730 – 769</td> <td>C</td> </tr> <tr> <td>700 – 729</td> <td>C-</td> </tr> <tr> <td>670 – 699</td> <td>D+</td> </tr> <tr> <td>630 – 669</td> <td>D</td> </tr> <tr> <td>600 – 629</td> <td>D-</td> </tr> <tr> <td>Less than 600</td> <td>F</td> </tr> </tbody> </table> <p><b>The GRADUATE catalog provides these guidelines and grading options:</b></p> <ul style="list-style-type: none"> <li><b>A, A-</b> Superior graduate work</li> <li><b>B+, B, B-</b> Satisfactory graduate work</li> <li><b>C</b> Work that is barely adequate as graduate-level performance</li> <li><b>CR</b> Work that is performed as satisfactory graduate work (B- or better). A grade of “CR” is reserved for courses designated by a department, involving internships, a thesis, practicums, or specified courses</li> <li><b>F</b> Work that is unsatisfactory</li> <li><b>I</b> Incomplete work</li> <li><b>ZF</b> An incomplete which was not completed within one year of the end of the course. ZF is treated the same as an F or NC for all cases involving grade point average, academic warning, probation, and dismissal</li> <li><b>W</b> Withdrawn from the course</li> <li><b>NR</b> Not reported for the course</li> </ul>	<i>TOTAL POINTS</i>	<i>GRADE</i>	930 – 1000	A	900 – 929	A-	870 – 899	B+	830 – 869	B	800 – 829	B-	770 – 799	C+	730 – 769	C	700 – 729	C-	670 – 699	D+	630 – 669	D	600 – 629	D-	Less than 600	F
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<p><b>Grading</b></p>	<p><b>Participation:</b> Participation is graded on the quality and frequency of participation, demonstrating mastery of the content, articulating thoughtful analysis that integrates the course concepts, and building on others’ ideas.</p> <p><b>Late Work, Make-up Quizzes and Examination:</b> Late assignments lose 20% of total points possible for each 24 hours (or portion thereof) that the assignment is late. Quizzes missed for excused absences (student notifies me directly before the class meeting) can be made up the following week. There are no make-up exams, nor are there makeups for missed case discussions.</p> <p><b>Point Distribution and Weighting:</b> The following table lays out the total points available for each component of the course’s assignments/activities:</p> <table border="1" data-bbox="443 659 1289 919"> <thead> <tr> <th>Grading Component</th> <th>Percent</th> <th>Points</th> </tr> </thead> <tbody> <tr> <td><b>Weekly Participation</b> (25 points/week)</td> <td><b>20.0%</b></td> <td><b>200</b></td> </tr> <tr> <td><b>In-Class Quizzes</b> (100 points/week)</td> <td><b>30.0%</b></td> <td><b>300</b></td> </tr> <tr> <td><b>Harvard Cases/Discussions</b> (75 points each)</td> <td><b>30.0%</b></td> <td><b>300</b></td> </tr> <tr> <td><b>Final Examination</b></td> <td><b>20.0%</b></td> <td><b>200</b></td> </tr> <tr> <td><b>Total</b></td> <td><b>100.0%</b></td> <td><b>1,000</b></td> </tr> </tbody> </table>	Grading Component	Percent	Points	<b>Weekly Participation</b> (25 points/week)	<b>20.0%</b>	<b>200</b>	<b>In-Class Quizzes</b> (100 points/week)	<b>30.0%</b>	<b>300</b>	<b>Harvard Cases/Discussions</b> (75 points each)	<b>30.0%</b>	<b>300</b>	<b>Final Examination</b>	<b>20.0%</b>	<b>200</b>	<b>Total</b>	<b>100.0%</b>	<b>1,000</b>
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<p><b>Policy Statements: University Policies</b></p>	<p>University policies are provided in the current course catalog and course schedules. They are also available on the university website. This class is governed by the university’s published policies. The following policies are of particular interest:</p> <p><b>Academic Honesty</b> The university is committed to high standards of academic honesty. Students will be held responsible for violations of these standards. Please refer to the university’s academic honesty policies for a definition of academic dishonesty and potential disciplinary actions associated with it.</p> <p><b>Drops and Withdrawals</b> Please be aware that, should you choose to drop or withdraw from this course, the date on which you notify the university of your decision will determine the amount of tuition refund you receive. Please refer to the university policies on drops and withdrawals (published elsewhere) to find out what the deadlines are for dropping a course with a full refund and for withdrawing from a course with a partial refund.</p> <p><b>Special Services</b> If you have registered as a student with a documented disability and are entitled to classroom or testing accommodations, please inform the instructor at the beginning of the course so the accommodations you require in this class so these can be provided.</p> <p><b>Disturbances</b> Since every student is entitled to full participation in class without interruption, disruption of class by inconsiderate behavior is not acceptable. Students are expected to treat the instructor and other students with dignity and respect, especially in cases where a diversity of opinion arises. Students who engage in disruptive behavior are</p>																		

	<p>subject to disciplinary action, including removal from the course.</p> <p><b>Attendance Policy</b>                  The University reserves the right to cancel a student’s course enrollment if the student does not attend class the first or second week of the term/semester. Students are expected to attend all class sessions. In the case of unavoidable absence (e.g., medical reason, work related travel), the student must contact the instructor directly and immediately. The instructor may give warning to the student and then recommend that the student withdraw from the course. The student is subject to appropriate academic penalty for incomplete or other make-up work, or for excessive or unexcused absences. A student who misses two class meetings per course without a documented reason or (advance) permission from the instructor should withdraw from the course.</p>
<p><b>Course Policies and Activities</b></p> <p><b>Financial Calculators</b></p> <p><b>Weekly Problem Sets</b></p> <p><b>Case Discussions</b></p>	<p><b>Microsoft Excel &amp; Word:</b> The Harvard case analysis should be submitted in Excel (for calculations) <i>and</i> Word (for written portions of assignment of the assignment). All Excel work must be formula-based; no credit will be earned for hard-coded answers in Excel files. Students are strongly encouraged to bring laptops weekly to class.</p> <p><b>Students should bring a <u>financial</u> calculator to every class meeting.</b> Your financial calculator is the most important tool for learning finance and solving valuation problems quickly and systematically. Weekly quizzes and the final exam will require skilled use of a financial calculator. (Yours should include time value of money, cash flow analysis, bond calculations, and amortization functions.) <b>Hewlett Packard 10B2 (or 10B2+) is the official calculator for this course; I will demonstrate how to use this calculator each week in class.</b> Students who bring a different calculator model or brand are entirely on their own regarding learning it and making it work for the customized applications we will address in FINC 5880. Calculators on phones are not permitted.</p> <p><b>The weekly assigned problem sets are ungraded and vital to your success.</b> However, this does not mean that they do not merit your full attention. The quizzes in this course are 100% application-based. Completing the homework problems is the primary method for building your mastery and preparing for the quizzes and final examination. To enable your success in this self-study, I will provide solutions for all the assigned questions and exercises so you can check your work.</p> <p>Management is about making decisions and taking effective action. One of the best ways to prepare for managerial decision-making is to assess real businesses and their challenges, and determine what decisions need to be made. There will be several case discussions throughout the course that give you the opportunity to grow in this essential career skill. There is a high probability that you will be asked to launch the case discussion or lead a section of the in-class case analysis. All points will be earned exclusively by thoroughly participating in the course discussion, by demonstrating that you have thoroughly prepared your analysis, and offering clear, supportable recommendations.</p>

<b>Three Quizzes &amp; Final Exam</b>	<b>Quizzes and Final Examination Content</b> <p>This course is not so much about finance as it about decision-making. It is designed to help you think of finance through the study of situations where decisions make a difference. My goal is to help you develop the capacity to use information at the point of decisions. Thus, this is a course about finance, as well as financial information, and your skill in their use. Quizzes and the Final Examination reflect this focus.</p> <p>To assess your skill at applying finance to real business situations, the three quizzes cover material studied in the problem sets and which is addressed in cases we work out together in class; the quizzes are cumulative and involve calculations, problem-solving, decision making, and/or case analysis. The assumption behind all quizzes is that, by completing the text reading and homework assignments, students have mastered the concepts sufficiently to apply the concepts to solve real-world business challenges. Each quiz/assessment will involve making managerial decisions using financial information.</p>
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<b>SEGMENT 1 : Dividends, Innovative Financing Tools, and Valuing Real Options</b>	
<p><b>Week 1</b></p> <p><i>How do you capture the true performance of a business in its financials? How can you utilize financials to evaluate firm performance?</i></p>	<p><b>There is <u>no class meeting for Week 1 (May 28). Instead:</u></b></p> <ul style="list-style-type: none"> <li>▪ Read the Lord Heidelberg case (download from our course site at <a href="http://www.lore.com">www.lore.com</a>). The access code for our site can be found in Blackboard's announcements. We won't use Blackboard after this week.</li> <li>▪ Answer the assigned case questions; feel free to work on it as teams of up to 4 people.</li> <li>▪ Your financial statements and analysis are due by noon, June 2. (Post your file at our course website – do not email files to the instructor.)</li> </ul> <p><i>Complete before the Week 2 class meeting:</i></p> <ul style="list-style-type: none"> <li>▪ Read Chapter 19: Dividends and Other Payouts</li> <li>▪ Prepare your analysis of the <i>Dividend Policy at Linear Technology</i> case.</li> </ul>
<p><b>Week 2</b></p> <p><i>What is the impact of dividends on share price? How do dividends affect who invests in your firm (and doesn't!)</i></p>	<p><b>Before class: Read Chapter 19 and Harvard Case</b></p> <ul style="list-style-type: none"> <li>▪ Ch19: Dividends and Other Payouts</li> <li>▪ Read and analyze the <i>Dividend Policy at Linear Technology</i> Harvard case – come fully prepared for this discussion with your analysis completed; it is worth 75 points.</li> </ul> <p><i>Complete before the Week 3 class meeting:</i></p> <ul style="list-style-type: none"> <li>▪ Complete the questions/exercises for chapter 19</li> <li>▪ Prepare for the Week 3 Quiz</li> </ul>
<p><b>Week 3</b></p> <p><i>How do firms raise capital at different stages in their life cycles? What is "hybrid financing" and how can warrants and other tools be used?</i></p>	<p><b>Before class: Read Chapter 24</b></p> <ul style="list-style-type: none"> <li>▪ Ch24: Warrants and Convertibles</li> <li>▪ Optional: Read "Sophisticated Financing Tool: The Warrant" by Haves &amp; Reiling in <i>Harvard Business Review</i> (access via Passport library)</li> </ul> <p><i>Complete before the Week 4 class meeting:</i></p> <ul style="list-style-type: none"> <li>▪ Complete the questions/exercises for chapter 24</li> </ul>
<b>SEGMENT 2 : Risk and Return, Portfolios, and Capital Structure</b>	
<p><b>Week 4</b></p> <p><i>What are decision trees and how do managers use them to anticipate and manage risk? What are real options?</i></p>	<p><b>Before class: Read Chapter 7 and Harvard Background Note</b></p> <ul style="list-style-type: none"> <li>▪ Ch7: Risk Analysis, Real Options, and Capital Budgeting</li> <li>▪ Read <i>Decision Trees</i> Harvard background note</li> <li>▪ Optional: Read "Investment Opportunities as Real Options" by Timothy Luehrman in <i>Harvard Business Review</i> (access via Passport library)</li> </ul> <p><i>Complete before the Week 5 class meeting:</i></p> <ul style="list-style-type: none"> <li>▪ Complete the questions/exercises for chapter 7</li> <li>▪ Prepare the Arundel Partners: The Sequel Project case</li> </ul>

<p><b>Week 5</b></p> <p><i>How do managers measure the risk of investments? How can you use portfolios as a tool to manage risk and build returns on investments? What is the cost of capital to use for valuation?</i></p>	<p><b>Before class: Read Chapter 11</b></p> <ul style="list-style-type: none"> <li>▪ Ch11: Return and Risk</li> </ul> <p><i>Complete before the Week 6 class meeting:</i></p> <ul style="list-style-type: none"> <li>▪ Complete the questions/exercises for chapter 11</li> <li>▪ Prepare for the Week 6 Quiz</li> <li>▪ Professor’s Capital Structure problem set</li> </ul>
<p><b>Week 6</b></p> <p><i>Does capital structure influence firm value? What implications does capital structure have on financing and investing decisions?</i></p>	<p><b>Before class: Read Chapters 17 – 18, Harvard Note</b></p> <ul style="list-style-type: none"> <li>▪ Ch17: Capital Structure</li> <li>▪ Ch18: Valuation and Capital Budgeting for the Levered Firm</li> <li>▪ Read <i>Note on the Theory of Optimal Capital Structure</i></li> <li>▪ Optional to Read: “APV: A Better Tool for Valuing Operations” by Timothy Luerhman in <i>Harvard Business Review</i> (access via Passport library)</li> </ul> <p><i>Complete before the Week 7 class meeting:</i></p> <ul style="list-style-type: none"> <li>▪ Complete the questions/exercises for Chapters 17 &amp; 18</li> <li>▪ Prepare the Mercury Athletic Footwear: Valuing the Opportunity case</li> </ul>
<p><b>SEGMENT 3 : Advanced Corporate Finance Applications</b></p>	
<p><b>Week 7</b></p> <p><i>What are derivatives? How can managers create effective hedging strategies that manage risk? How do you sell risk to others?</i></p>	<p><b>Before class: Read Chapter 25 &amp; Harvard Case</b></p> <ul style="list-style-type: none"> <li>▪ Ch25: Derivatives and Hedging Risk</li> <li>▪ Read and prepare the <i>Mercury Athletic: Valuing the Opportunity case</i></li> </ul> <p><i>Complete before the Week 8 class meeting:</i></p> <ul style="list-style-type: none"> <li>▪ Complete the questions/exercises for Chapter 25</li> <li>▪ Prepare for the Week 8 Quiz</li> <li>▪ Submit the Harvard case analysis</li> </ul>
<p><b>Week 8</b></p> <p><i>What are options? How do you value them? Where are options embedded in business decisions?</i></p>	<p><b>Before class: Read Chapters 22 &amp; 23</b></p> <ul style="list-style-type: none"> <li>▪ Ch22: Options and Corporate Finance</li> <li>▪ Ch23: Options and Corporate Finance – Extensions &amp; Applications</li> <li>▪ Optional to Read: “Investment Opportunities as Real Options” by Timothy Luehrman in <i>Harvard Business Review</i></li> </ul> <p><i>Complete before the Week 9 class meeting:</i></p> <ul style="list-style-type: none"> <li>▪ Complete the questions/exercises for Chapters 22 &amp; 23</li> </ul>
<p><b>Week 9</b></p>	<p><b>In Class Comprehensive Final Examination</b>—Students are allowed to bring an 8.5 x 11 sheet of notes (single-sided) to the exam.</p>

*The instructor reserves the right to change and amend any or all parts of the syllabus and will notify all students of the changes.*