

Corporate Finance
FALL 2008
Professor Z. Jill Barclift
Mondays 11:00-12:50 PM
Room: 240A

Scheduled Office Hours:
Wednesdays 1:00-2:30PM
Other times by appointment
Email: zbarclift@hamline.edu

Office: 206 East
Phone: 651/523-2357

REQUIRED TEXTBOOK:

**Corporate Finance: Cases and Materials, Jerry W. Markham and Thomas Lee Hazen, Thomson West American Casebook Series, 2nd Edition
ISBN 978-0-314-18385-9**

GOALS AND LEARNING OUTCOMES

Please note that this syllabus is intended to serve as a guide and that I may modify this syllabus during the semester to best meet the needs of the class. Additional reading assignments and hand-outs may also be assigned. Modifications to the syllabus will be announced as far in advance as possible.

The goals and learning outcomes of this course are:

Goals:

- To understand how corporations raise equity and debt capital;
- To understand the legal issues in corporate financing instruments; and
- To understand the legal issues in drafting financing documents

Learning Outcomes:

- To identify the most common financing options available to the corporation; and
- To identify the legal issues related to corporate finance

The course will emphasize lectures, individual and group in-class presentations/discussions, drafting exercises, paper outline, and final paper as the methods to achieve these objectives.

Course Requirements

Outline of Final Paper – Due Monday, November 24

Each student is required to submit an outline of the final paper. The outline must include the following: statement of the corporate finance issue(s), explanation of the legal issue(s), and an evaluation of legal issue(s). The outline must be typewritten and in outline format.

Final Paper - Due Friday, December 12

Each student is required to submit a final paper of a minimum 20 pages. All references must follow Bluebook for citations and be included at the bottom of each page. The paper must be typewritten and double-spaced. The paper must be date/time stamped in the registrar's office.

The final paper must do the following:

- Identify a corporate finance issue
- Identify the legal issue(s)
- Evaluate the issue(s)
- Recommend a solution to the issue(s)

Individual and Group Class Presentation/Discussion Assignments

Students are required to participate in class individual and group assignments as directed throughout the semester. Instructions for these assignments will be provided in class.

Course Requirements and Grading

Individual class participation	5%
Group assignments	10%
Outline of final paper	15%
Final Paper	70%

Attendance and Tardiness

Students are expected to attend class and be prepared to discuss the assignments for that day. Students are expected to arrive in class on time (subject to weather emergencies) and to remain in class throughout the session. Students who miss five or more classes may be academically dropped from the course. Students arriving more than ten minutes late for four classes during the semester will be marked for one class absence.

Computers and Laptop Use in Class

Use of computers/laptops for note taking in class is permitted; however, only word processing programs may be open during class unless the class discussion requires access to a specific web browser or for additional understanding of the reading assignments/lectures. Anyone during class using non-class related web browsers, electronic games, communicating via email, instant messaging or otherwise using the computer/laptop for purposes not related to the class or learning outcomes may be asked to discontinue use of their computer/laptop and may not be permitted to bring their computer/laptop to class for the duration of the course.

Class Assignments: Please note we may not always discuss the assigned readings in class.

Monday, August 25 Read Chapter 1 – Corporate Finance: An Overview pp.1- 45

Introductions and review of class assignments.

Class discussion will focus on the following:

What is corporate finance?

Who are the players? What are their roles?

- Lawyers
- Accountants
- Banks/Underwriters/Trustees
- Exchanges, Regulatory and other agencies

Please come prepared to discuss the following in class:

- What is the role of the federal government in the regulation of securities/financial instruments?
- Why do federal regulations follow market crisis/scandal?
- Describe each crisis/scandal and the government's response.
- What role did research analyst's conflicts of interest play in Wall Street scandals?
- Do the SEC Settlement conditions improve disclosures?
- What is the impact of the institutional investor on financial markets?
- Identify several factors contributing to the growth of institutional investing.
- Do you agree with the SEC's response to the regulation of institutional investing?

Monday, September 8 No Assigned Reading. Please bring to class an example of one form of equity, debt or complex financing.

Class discussion will focus on the following:

What is corporate finance?

What are the instruments? How do they work?

- Basic Terms
- Equity Financing
- Debt Financing
- Complex Financing

Please come prepared to discuss the following in class:

Describe an example of corporate financing.

Group assignment – in class case discussions for next week:

SEC v. Dunlap (pp.74-77) & In the Matter of Trump Hotels (pp.77-84)

Monday, September 15 Read Chapter 2 pp. 46-53 (omit 53 [section 2] – top of 69); and pp. 69 [section 3] – 85

Class discussion will focus on the following:

- Why accounting matters?
- What is a balance sheet?
- What is an income statement?
- How the financial statements fit together?
- How financial statements and reality can diverge?

Case law and the application of accounting standards – Group discussions of Cases

Presentations of group discussion assignments:

Legal Issue: Inaccurate financial statements and false or misleading disclosures

1. What was Sunbeam's fraudulent accounting scheme? SEC v. Dunlap (pp.74-77)
2. What was Trump Hotel's fraudulent accounting scheme? Did Trump Hotels issue misleading financial statements? In the Matter of Trump Hotels (pp.77-84)

Monday, September 22 Read Chapter 3 pp. 102-116 and pp.154-159

Class discussion will focus on the following:

Short-Term Debt and Long-Term Debt

- Financing of Inventory
- Loans and Lines of Credit
- Receivable Financing
- Commercial Paper

Legal Issue for class discussion:

1. When is commercial paper a security? Sanders v. Nuveen (pp.154-157)

Long-Term Debt

- Mortgages
- Bonds
- Trustee

Additional Assignment:

Please review the most recent annual reports for the following companies:

- Target Corporation
- Best Buy Co., Inc.
- General Mills Inc.

Identify the following:

- Debt Rating
- Long-term Debt
- Short-Term Debt
- Interest Payments on Debt

Be prepared to discuss your findings in class.

Hand-out - drafting exercises for 9/29 and 10/6.

Monday, September 29 Please Read the Hand-Out on Technical Markups

Class discussion will focus on the following:

Long Term Debt – cont'd

- The Parties
- Term Sheets
- Indenture Agreements
- Covenants

Drafting Exercise: Please read the hand-out on technical mark-ups. We will do the following exercises in class:

- Mark-up the Guaranty Paragraph Sample 2-A
- Mark-up the Guaranty Paragraph Sample 2-C
- Mark-up the Promissory Note Sample 2EX-A for First National Bank and Sawmill Industries, Inc., and Lakefront Savings and Loan Association and Harold Greetings Corp.

Note: Group assignment - class case discussions for next week:

Metropolitan Life Ins. V. RJR Nabisco (pp. 160-174)

Lorenz v. CSX Corp. (pp.174-179)

Harriet v. Castle (pp.186-193)

Mutual Savings v. James River (pp.196-200)

Monday, October 6 Read Chapter 4 pp.160-200 (omit 194-top of 196) and Drafting Exercises Cont'd

Class discussion will focus on the following:

Long Term Debt Cont'd

Presentations of group discussion assignments:

Legal Issues:

1. How do courts interpret contract language in bond indentures? Metropolitan Life Ins. V. RJR Nabisco (pp. 160-174)
2. Is there an implied covenant of good faith owed to bondholders? Lorenz v. CSX Corp. (pp.174-179)
3. What are the obligations of the indenture trustee? Harriet v. Castle (pp.186-193)
4. What is the meaning of redemption? Mutual Savings v. James River (pp.196-200)

Drafting Exercise: Please read the hand-out on technical mark-ups. We will do the following exercise in class:

- Mark-up the Term Sheet Indenture for The Caliper Company to reflect the terms in the Indenture Agreement for Bergamot and Friendly Bank.

Note: Group assignment - class case discussions for next week:

Rothschild v. Liggett (pp. 230-233)

Equity-Linked v. Adams (pp.233-241)

Elliott v. Avatex (pp.247-252)

Benchmark Capital v. Vague (pp.252-257)

Monday, October 13 Read Chapter 5 pp.224-270 (omit pp.241-top 247)

Class discussion will focus on the following:

Preferred Stock

- Rights
- Preferences
- Convertibles

Legal Issues:

Liquidation Preferences and Common Shareholder Conflicts

Presentations of group discussion assignments:

Legal Issues:

1. How did the court interpret preferential rights of preferred shareholders?
Rothschild v. Liggett (pp. 230-233)
2. What duties does the board owe preferred shareholders? Equity-Linked v. Adams (pp.233-241)
3. How did the court reconcile the rights of common and preferred shareholders?
Elliott v. Avatex (pp.247-252)
4. What are the contractual rights of preferred shareholders in a merger?
Benchmark Capital v. Vague (pp.252-257)

Monday, October 20 Read Chapter 7 pp.390 & 400-420 & 427-437 and Additional Assignment

Class discussion will focus on the following:

Merger Financing

- Assessment of target company debt
- Acquisition debt
- Implications for lawyers

Appraisal Rights

- Statutory Appraisal
- Assessment of fair value

Legal Issue: Judicial assessment of fair value

We will not discuss the cases on pp. 400-420 in class. We will discuss Cooper v. Pabst (pp.427-437) in class.

Additional Assignment:

Please research one scholarly article that evaluates the pros and cons of corporate mergers. Please be prepared to discuss your article in class.

Monday, October 27 No Assigned Reading

Class discussion will focus on the following:

The Deal Life Cycle

- Understanding the company and defining the market/instruments
- Preliminary negotiations and due diligence
- Drafting and Negotiation
- Closings
- Document Requirements

Monday, November 3 Please Read the Hand-Out on Introduction to Covenants

Class discussion will focus on the following:

Constructing the contract

- The parties
- Successors and assigns
- Conditions Precedent
- The MAC clause
- Representations and Warranties
- Covenants
- Defaults
- Definitions
- How the provisions work together

Drafting Exercise: Please read the hand-out on Introduction to Covenants and the Sample Housekeeping Covenants. We will do the Housekeeping Covenants-Version 1 exercise in class and answer the questions provided.

Note investment banking assignment for next week.

Monday, November 10 Read Chapter 8 pp. 469-474 (omit pp. bottom 474-487) & 487 [private placements] - 497 & 497 [the underwriting process] – 513 [NOTE ASSIGNMENT ON HISTORY OF INVESTMENT BANKING]

Class discussion will focus on the following:

Publicly Traded Stocks

- SEC
- Private Placements
- Underwriting

Legal Issue: The case provides a summary of the investment banking industry and underwriting. Please prepare a chronology of the history of investment banking institutions and underwriters based on the court's explanation in US v. Morgan (pp 497-509) and research one additional scholarly article on the investment banking industry. Please be prepared to discuss your article in class

Note market makers assignment for next week.

Monday, November 17 Read Chapter 8 pp. 513 [after the IPO] – 524 & 524 [the NYSE] – 537 [NOTE ASSIGNMENT ON MARKET MAKERS]

Class discussion will focus on the following:

Publicly Traded Stocks

- The IPO (initial public offering)
- Role of the Exchanges

Legal Issue: The commission explains the role of market makers. Please prepare an explanation of market makers and analyze the concerns raised by the commission that market makers engaged in anticompetitive and improper practices, In the Matter of Certain market Making Activities on NASDAQ (pp 515-520) and research one additional scholarly article on IPOs. Please be prepared to discuss your article in class.

Group assignment class case discussions for next week:

Rockford Life Insurance v. Illinois Dept. of Rev. (pp. 606-607)

Securities Industry Assoc. v. Clarke (pp.609-611)

In re National Mortgage Equity (pp.612-615)

JPMorgan v. Liberty (pp.645-649)

In re Enron Corp. Securities Derivative & ERISA Litigation (pp.650-656)

Monday, November 24 Read Chapter 10 pp.602-616 & 640-656

Outline of the Final Paper Due in Class

Class discussion will focus on the following:

Structured Finance and Securitization

- Pass Through Certificates
- Other Forms of Structured Finance

Presentations of group discussion assignments:

Legal Issues:

1. What are Ginnie Maes and how do they work? Why did the federal government create a secondary mortgage market? Rockford Life Insurance v. Illinois Dept. of Rev. (pp. 606-607)
2. What are pass through certificates? What are the benefits to the banking industry? Securities Industry Assoc. v. Clarke (pp.609-611)
3. What are the legal risks to mortgage pool certificates? In re National Mortgage Equity (pp.612-615)
4. What is the role of sureties? What are the legal risks to sureties? JPMorgan v. Liberty (pp.645-649)
5. Describe the Enron structured financing arrangements. In re Enron Corp. Securities Derivative & ERISA Litigation (pp.650-656)

Monday, December 1 Read Chapter 13 pp. 871-878, & 883-886, & 897-898, & 932-941

Class discussion will focus on the following:

Investment Companies

- Hedge Funds and Private Equity
- Derivatives

Please research one scholarly article on hedge funds, private equity (venture capital investors) or derivatives. Please be prepared to discuss your article in class