Course Readings:


Articles available on Canvas site: http://canvas.northwestern.edu

Cases (included in course packet):

- “Sampa Video, Inc.” (HBS 9-201-094)
- “UST Inc.” (CaseNet)
- “Facebook, Inc.: The Initial Public Offering (A)” (Ivey 9B12N031)
- “Dividend Policy at FPL Group, Inc. (A)” (HBS 9-295-059)
- “Safeway, Inc.’s Leveraged Buyout (A)” (HBS 9-294-139)
- “Valuation of AirThread Connections” (HBS 4263)
- “Stanley Black & Decker, Inc.” (HBS 9-211-067)
- “United Grain Growers Limited (A)” (HBS 9-201-015)

The course is organized into three modules:

I. Capital Structure (Lectures 1-7; 4 cases)
II. Dividend Policy (Lecture 8; 1 case)
III. Applied Topics (Lectures 9-11; 3 cases)

Week 1:

1. **Introduction**
   - Course objectives and goals
   - Role of financial manager
   - Market efficiency
   - Corporate governance and firm’s objective
     BD: Chapter 1.2 (pages 7-14) and Chapter 9.5 (pages 300-306)
     BD: Chapter 13 (skim)

2. **Why Does Capital Structure Matter?**
   - Basic characteristics of debt and equity
   - MM irrelevance proposition
     BD: Chapter 14

Week 2:

3. **Capital Structure: Taxes**
   (Face Card due: Sep. 28th)
   - Tax subsidies for corporate borrowing
   - After-tax cost of debt capital
     BD: Chapter 15
4. Valuation with Leverage, including “Sampa Video”  
   - Review and application of free cash flow formula  
   - Adjusted present value (APV)  
   - Weighted average cost of capital (WACC)  
   BD: Chapters 8.2-8.4 (pages 247-258) and 18

5. Capital Structure: Financial Distress  
   - Consequences of financial distress  
   - APV with costs of financial distress  
   BD: Chapter 16.1-16.4 (pages 551-564)

Week 3:

Case Application: “UST Inc.”  
(Case memo due: Oct. 5th)

   - Timing equity issuance  
   - Signaling with capital structure  
   BD: Chapter 16.8-16.9 (pages 577-585)  
   Web: “Equity Issues and Offering Dilution,” P. Asquith and D. Mullins (Sections 1 and 5,  
   Tables 2, 3, 5, and 9)

Week 4:

Case application: “Facebook, Inc.”  
(Case memo due: Oct. 12th)

7. Capital Structure: Conflicts of Interest  
   - Separation of ownership and control  
   - Transfers of value from debt to equity  
   BD: Chapter 16.5-16.7 (pages 565-577) and Chapter 24.3 (pages 876-877)  
   “Agency Costs of Free Cash Flow,” M. Jensen

Week 5:

Midterm Exam  
(Midterm Exam: Oct. 19th, in class)

Week 6:

Case Application: “Safeway, Inc.’s Leveraged Buyout (A)”  
(Online Case Qs due: Oct. 26th)

8. Dividend Policy  
   - Dividends vs. share repurchases  
   - Dividend and capital gains taxes  
   - Signaling with dividends  
   BD: Chapter 17

Week 7:

Case application: “Dividend Policy at FPL Group, Inc.”  
(Online Case Qs due: Nov. 2nd)

9. Mergers
Week 8:

Case application: “Stanley Black & Decker, Inc.” (Online Case Qs due: Nov. 9th)

Case application: “Valuation of AirThread Connections” (Case memo due: Nov. 9th)

Week 9:

10. Risk Management and Hedging
   BD: Chapter 30

11. Security Design
   - Convertible bonds
   BD: Chapter 24.4 (pages 881-883)

Week 10:

Case application: “United Grain Growers Limited” (Case memo due: Nov. 30th)

Final Exam Review in class on TBA

Week 11:

Final Exam (Dec. 7th, in class)

LECTURES AND CLASS DISCUSSIONS

The lectures will be based on the outlines posted to Canvas. You should read the relevant lecture outlines carefully prior to class. I will encourage class participation, so preparation is essential.

TA AND REVIEW SESSIONS

A video of a recorded TA sessions will be posted weekly. The sessions will provide guidance on solving problems and applying the concepts covered in lectures. There will also be review sessions for the midterm and final exams. Dates and times will be announced in class and on Canvas.
ASSIGNMENTS

Deadlines for this class are non-negotiable. If you have a question about a deadline, you should resolve your question prior to the deadline. Assignments will not be accepted after the due date and exams may not be taken late. Turning in assignments after the due date or taking an exam later than your scheduled time may provide a student with an unfair advantage over other students. Students unable to complete the course assignments and exams by the due date will receive zero credit.

Homework Assignments (Ungraded):

The assignments are not graded, but should be completed for your benefit. Doing the homework will make the concepts much clearer and will help you immensely on the exams. I will post answers to Canvas and the TA will discuss the solutions in the weekly TA sessions. I will not collect or grade your answers. Homework assignments are “due” on the following dates:

- Homework 1 (Cost of Capital) ..................... Sep. 20th
- Homework 2 (Free Cash Flow) .................... Sep. 27th
- Homework 3 (Valuation w/leverage) ............... Oct. 4th
- Homework 4 (Signaling and equity issuance) .... Oct. 11th
- Homework 5 (Valuation in mergers) .............. Nov. 1st
- Homework 6 (Financial options) .................. Nov. 8th
- Homework 7 (Risk management) ................. Nov. 15th
- Homework 8 (Convertible bonds) ............... Nov. 29th

Case Assignments:

There are eight case assignments, four requiring case memos and four requiring short responses to an online questionnaire.

The case memos are worth 25 points each. You may work in groups (up to 6 students) on the cases. In the past, groups have been more successful than individuals in preparing the cases, so I strongly urge you to work in groups. Please turn in one memo per group, but keep a copy of your answers for class; you will be expected to contribute to the class discussion based on your written answers.

The memos should be 3-5 written pages plus tables. Brevity is a virtue. Do not repeat the facts of the case – I have read it. I have provided case questions (in your course packet and posted on Canvas) to guide your discussion. Your case grade will depend not only on your final answer, but also on how well you reason through your proposed solution. I will return the graded cases with written comments, but I will not hand out a solution key.

Case memos are due at the beginning of class on the day we discuss each of the following cases:

- UST .................................................. Oct. 5th
- Facebook ............................................. Oct. 12th
- AirThread .......................................... Nov. 9th
United Grain Growers.................................. Nov. 30th

For the remaining four cases I will assign a “case poll,” a web-based questionnaire requiring short responses (worth 10 points each). Though I am not assigning a case memo, I still expect you to prepare these cases diligently. I encourage you to discuss and solve these cases in groups, but each student is responsible for completing the web-based questions (via ForClass) on his or her own. Your responses are due by 8 AM on the day we discuss each of the following cases:

- Sampa Video............................................ Sep. 28th
- Safeway.................................................. Oct. 26th
- FPL............................................................. Nov. 2nd
- Stanley Black & Decker ......................... Nov. 9th

Exams:

There will be two exams. The midterm exam will be given in class. It will cover the first four weeks of material. The midterm will count for 120 points. Your midterm exam score can only help your grade; the midterm score will be dropped (replaced by \( \frac{1}{2} \) of your final exam score) if you perform better on the final exam than on the midterm.

The final exam will be given in class. It will cover the entire course, but with particular emphasis on the second half material. The final will be worth 240 points.

**GRADING**

Your total score for the class will be computed as follows:

\[
\text{Total score} = \text{Face card} + 4 \times \text{case memos} + 4 \times \text{case polls} + \max(\text{midterm} + \text{final}, 3/2 \times \text{final})
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**REGRADE POLICY**

If you feel that your cases or exams have been graded incorrectly, you can submit a re-grade request. I adhere to the Kellogg re-grade policy: all requests must be made in writing within 10 working days after the exam has been graded and returned. The request should include an explanation of why you think the grading is incorrect. Upon submission of a re-grade request, I will review your entire assignment/exam for errors in grading. Your final grade will be based on this complete review. Therefore, your grade can either be raised or lowered upon re-grading.
HONOR CODE

The Kellogg honor code strictly applies to all aspects of this course, including class assignments and exams. Exams are to be completed individually and are closed book. Solutions to previous years’ problems should not be used in solving case assignments. The complete honor code can be found on the Office of Student Affairs website. Ask if there is any uncertainty as to how the honor code applies to this course.

OFFICE HOURS

I will hold office hours in the faculty offices (Wieboldt, 2M) every Thursday before class from 4:30 pm to 5:30 pm. If you are unable to attend, I am available to meet by appointment or speak by phone. Please email me at least one day in advance to schedule a meeting.

OTHER ADMINISTRATIVE DETAILS

The class notes, homework assignments and answers, and past exams are the intellectual property of the instructor. You may not distribute class notes electronically or in any form to anyone outside of the class or outside of Kellogg. You may not duplicate these notes for use by your employers after graduating from Kellogg without my written consent.