Corporate Finance – SPRING 2020

Syllabus

Professor Bartlett

**Course Description:**

This course explores the legal aspects of a fundamental question for business organizations: how does a firm raise money to finance its operations? In examining this question, the course takes both a theoretical and a practical perspective.

As a matter of financial theory, how can a firm utilize its financial resources as well as various sources of outside financing—for example, debt and equity markets—to enhance its value to investors? Even a cursory look at the *Wall Street Journal* reveals that firms differ widely in how they choose to finance their operations and utilize their financial resources. Some firms finance their operations with debt; others, with equity. Some companies issue preferred stock; others, asset-backed securities. Some retain earnings; others pay out earnings as dividends. Do these differing financial judgments have any systematic effect on the value of a firm? If so, is there any legal duty on the part of a firm’s directors and officers to engage in “financial engineering” and thereby maximize the firm’s value? And how do we even go about valuing firms in the first place? These are the questions that regularly face corporate managers and that motivate a significant portion of corporate transactions. Understanding how financial theory provides answers to them is therefore a critical component of understanding the financial motivations of your future corporate clients. And understanding the motivations of your client is, of course, critical to rendering capable legal advice.

In addition to examining basic principles of finance theory, this course will also examine the practical aspects of executing a particular financing decision. Once a financing strategy has been selected, it is generally left to the deal lawyers to implement this strategy through financial contracts. This component of the course can therefore be thought of as a study in financial contracting strategies, with each strategy being shaped in large part by the type of financing technique being utilized. For instance, what are the primary risks you need to protect against when your client invests in a firm’s common stock? How do these risks differ when your client invests in senior securities such as corporate bonds or preferred stock? Are there any background legal principles that might influence the negotiation or drafting of these different types of contracts? How do these strategies change if you are instead representing a company contemplating the sale of these securities?

Lastly, because both the theory of corporate finance and the practice of corporate finance require an understanding of financial statements, this course will also provide a *brief* overview of basic accounting principles. The goal isn’t to create accountants capable of auditing a company, but rather, to get you comfortable reading and analyzing financial statements—the language of corporate finance.

*A word of warning*: By law school standards, we will be using **a lot** of math in this course. We will also be doing a fair amount of financial modeling in Microsoft Excel. You need no prior training in Excel, nor do you need mathematical background other than high school algebra, which I’ll assume you took a long time ago. But if equations scare you senseless or if you never took high school algebra, we should talk privately. Likewise, if you have never used Microsoft Excel, please come see me.

**Required Materials:**

The required materials for this course are:

* William J. Carney, Robert Bartlett, and George Geis, *Corporate Finance: Principles and Practice* (4th edition)
* Access to a laptop computer for bringing to class (please see me if this is not possible for you)
* Microsoft Excel (any recent edition)

I will also be distributing supplemental materials periodically on bCourses (see next).

While not required, I would strongly recommend that you obtain a subscription to the *Wall Street Journal* for the semester. For student subscriptions, the Journal has a student price of $1 per week for a 15-week subscription, which you can cancel at any time. (FYI: this is a *very* good price). You can register at:

<http://r.wsj.net/l6mGl>

**bCourse; Reading Assignments:**

I manage course announcements and assignments through bCourses. You should already be enrolled in the course bCourse website located at: https://bcourses.berkeley.edu/courses/1488164. If you are unable to access the bCourse site, please contact me as soon as possible. A copy of the syllabus, reading assignments, and copies of class materials can be found on the bCourse website. Reading assignments for each week will be posted on or before the preceding Thursday. Class slides will be posted to bCourses after each class.

**Grading:**

The course is offered on a credit/no-credit basis. Your final grade for the class will be determined as follows:

*Exam.* Subject to any upward or downward adjustment described below, your final grade for this course will be based on a two-hour, in-class exam to be administered on Tuesday, May 5, 2020. The exam will be designed to test your mastery of the concepts covered in this class and will consist of a series of multiple-choice questions. The exam will be open book. I will provide more information regarding the format of the exam later in the semester.

*Problem Sets.* During the course of the semester, I will distribute 4 problem sets to the class. You will have one week to complete each problem set. In addition to helping you learn the materials we are studying, the problem sets are also intended to encourage collaborative work—something that is all too seldom practiced in law school, but which is an important part of real life practice. Accordingly, I will assign each of you randomly to a team of 3-4 individuals who will work jointly on the problem sets. Each student must separately upload their answers by the assigned due date, though your work product can and should reflect the work of the entire team (i.e., it is permissible for each team member to upload the same set of answers, so long as they were collaboratively obtained). Additionally, each team member will separately complete a team evaluation at the end of the fourth problem set (the evaluation will ask you to confirm that each member of the team contributed substantially to the completion of the four problem sets.)

Please note that problem sets will *not* be scored upon submission, but rather, we will review them together following the deadline. That said, please be advised of the following two policies. First, all exam questions will be based on the problem sets; therefore, a student’s failure to comprehend all problem sets by the time of the exam will subject that student to a heightened risk of failing this course. Second, I will review all problem sets submitted by any student (i) whose exam performance places them in the bottom quartile of the class or (ii) who provide incorrect answers for more than 50% of the exam questions. The purpose of this review will be to determine whether any such students will receive a passing grade for this class. Students who fail to submit a problem set by the assigned due date or who submit an incomplete problem set will not be eligible to have their grade resuscitated by their problem sets. Note, however, that submitting complete and timely problem sets is not sufficient to pass the class.

*Class participation and attendance.* Much of our class discussion will be driven by the readings and problems assigned for each class. As such, I expect students to come to class prepared to discuss the assigned materials. To ensure robust class discussion, absent volunteers for a question, I will call on students using the class roster, proceeding alphabetically from A to Z. *If I am nearing your name on the roster and you anticipate that you will not be in class when I call on you, it is imperative that you let me know this in advance of class*. Failure to attend class on a day when I call on you will result in a 10% reduction of your grade, per incident.

Lastly, please note the following law school policy which I reserve the right to enforce:

*“When, in the opinion of an instructor, a student enrolled in his or her course has failed make a good faith effort at regular and punctual class attendance and, after reasonable warning and opportunity to make up and/or correct the deficiencies, continues to fail to make a good faith effort, the instructor may, in his or her discretion, take one of the following steps:*

* *request (in agreement with the Dean of Students) that the student be dropped from the class,*
* *reduce the student’s final grade, or*
* *assign the student a final grade of NC or NP.”*

**Administrative Matters:**

Location: Room 100

Class Meeting Times: M/T from 3:35 to 5:25 (we will take a 10-minute break at 4:30)

Office Hours (Simon 890): Tues: 10:00 am – 12:00 pm (or by appointment)

Email: rbartlett@law.berkeley.edu

Office Phone: (510) 642-6646

Legal Assistant: Kiara Williams (kwilliams1@berkeley.edu)

**Class Outline (subject to change):**

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| **Date** | **Class** | **Topic** |
| **I. Measuring Firm Output** | | |
| 1/13 | 1 | Introduction; Financial Reports |
| 1/14 | 2 | Financial Reports (cont'd); Excel Training Module #1 |
| 1/20 | No Class  (MLK Day) |  |
| 1/21 | 3 | Financial Reports (cont'd) |
| 1/27 | 4 | Financial Report (cont’d); Intro to Valuation  ***PROBLEM SET #1 DISTRIBUTED*** |
| **II. How Financing Decisions Can Affect Firm Value** | | |
| 1/28 | 5 | Calculating Future Value and Rates of Return; Intro to Present Value  ***PROBLEM SET #1 DUE*** |
| 2/3 | 6 | Present Value (cont.); Excel Training Module #2 (building a financial model) |
| 2/4 | 7 | Determining Discount Rates: Risk and Return |
| 2/10 | 8 | The Capital Asset Pricing Model (CAPM) |
| 2/11 | 9 | CAPM and its Alternatives: Financial and Legal Perspectives |
| 2/17 | No Class  (President’s Day) |  |
| 2/18 | 10 | CAPM (cont); The Efficient Capital Market Hypothesis (ECMH) Part I |
| 2/24 | 11 | Introduction to Weighted Average Cost of Capital (WACC) |
| 2/25 | 12 | WACC (cont’d); Valuing Entire Firms; ECMH Part II |
| 3/2 | 13 | Capital Structure |
| 3/3 | 14 | Capital Structure in the Real World: LBOs and Leverage Recaps  ***PROBLEM SET #2 DISTRIBUTED (tentative)*** |
| **III. Executing the Financing Decision** | | |
| 3/9 | 15 | Introduction to Equity Financing |
| 3/10 | 16 | Equity Financing (cont.)  ***PROBLEM SET #2 DUE (tentative)*** |
| 3/16 | 17 | Equity Financing (cont.); Introduction to Debt Financing |
| 3/17 | 18 | Debt Financing (cont.) |
| 3/23 | No Class  (Spring Break) |  |
| 3/24 |
| 3/30 | 19 | Debt Financing (cont.) |
| 3/31 | 20 | Debt Financing (cont.) |
| 4/6 | 21 | Debt Financing (cont); Intro to Preferred Stock |
| 4/7 | 22 | Preferred Stock (cont.)  ***PROBLEM SET #3 DISTRIBUTED (tentative)*** |
| 4/13 | 23 | Preferred Stock (cont) |
| 4/14 | 24 | Introduction to Options & Option Valuation  ***PROBLEM SET #3 DUE (tentative)*** |
| 4/20 | 25 | Option Valuation (cont.); Understanding Convertible Securities As Options |
| 4/21 | 26 | Protecting Option Value in Convertible Securities  ***PROBLEM SET #4 DISTRIBUTED (tentative)*** |
| 4/27 | 27 | Protecting Option Value in Convertible Securities |
| 4/28 | 28 | Protecting Option Value in Convertible Securities  ***PROBLEM SET #4 DUE (tentative)*** |