CONTENTS

$P_{r\rho}$	face to the Third Edition	xxvii
-	nowledgments	xxix
	oduction	xxxi
Hov	v to Use This Book	xxxiii
	Ī	
	VALUATION	1
	VILENTION	•
	1	
	1	
	CORPORATE FINANCE, ACCOUNTING, AND CASH FLOWS	3
1.	Accounting: An Overview	4
2.	Balance Sheets	5
	In re Lehman Brothers Holdings, Inc. (Bankr. S.D.N.Y.	
	2010)	6
	Problem Set 1.1	11
3.	Income Statements	11
4.	Cash Flow Statements	16
5.	Consolidated Reports	19
6.	Financial Ratios: Measures of Firm Health	20
7.	SEC Reports	22
	SEC Charges Comscore Inc. And Former Ceo With Accounting	22
0	and Disclosure Fraud	22
8.	The Case Study: iHeartMedia Inc.'s 2017 Form 10-K	23
	2	
	THE TIME VALUE OF MONEY	27
1.	One Period Present and Future Values	28
	Problem Set 2.1	29
2.	Multiple Period Present and Future Values	29
	Problem Set 2.2	31
3.	Perpetuities	31

xii | Corporate Finance

	Harry Wilson, Budget 2012: Perpetual Bonds Issue	
	Examined	31
	Problem Set 2.3	35
4.	Annuities	36
	Complaint of Connecticut National Bank	38
	Problem Set 2.4	40
	3	
	DISCOUNT RATES	45
1.	Expected Return	45
	Problem Set 3.1	47
2.	Opportunity Cost of Capital	47
	Problem Set 3.2	48
	Atlantic Richfield Company v. Farm Credit Bank of	
	Wichita	48
3.	Risk	51
4.	Capital Structure and the Absolute Priority Rule	53
	Elizabeth Warren, A Theory of Absolute Priority	53
_	Problem Set 3.3	54
5.	The Role of Inflation	54
	Problem Set 3.4	56
6.	The Yield Curve	57
	Problem Set 3.5	58
	4	
	THE NET PRESENT VALUE RULE AND SOME COMPETITORS	63
	Problem Set 4.1	65
1.	Comparing Competing Projects: More on the NPV Rule	65
	Problem Set 4.2	68
2.	Comparing Competing Projects: Internal Rate of Return	68
	Problem Set 4.3	72
3.	Payback and Hurdle Rates	73
	Problem Set 4.4	74

	VALUING BONDS	79
1.	Types of Bonds	80
2.	Bond Pricing and the Price/Yield Relationship	83
	Problem Set 5.1	85
3.	Valuing a Bond as an Annuity	87
	Problem Set 5.2	89
4.	Yield to Maturity	89
	Problem Set 5.3	90
5.	Bond Ratings	90
	Abu Dhabi Commercial Bank v. Morgan Stanley & Co.	93
	6	
	RISK AND RETURN	101
1.	Diversification	101
	In re JP Morgan Chase Bank	102
	Problem Set 6.1	106
2.	Firm-Specific and Systematic Risk	107
	Gagliardi v. Trifoods International, Inc.	108
3.	Measuring Sensitivity to Systemic Risk—Beta	109
	Problem Set 6.2	111
4.	The Law of One Price (and a Bit on Short Selling)	111
	Zlotnick, Albert M. v. Tie Communications & L.W. Kifer	113
	7	
	THE CAPITAL ASSET PRICING MODEL	121
1.	Portfolio Theory	122
	Sarah Pei Woo, Regulatory Bankruptcy: How Bank	
	Regulation Causes Fire Sales	123
2.	The Efficient Capital Markets Hypothesis	125
	Lawrence A. Cunningham, From Random Walks to Chaotic Crashes: The Linear Genealogy of the Efficient Capital	
	Market Hypothesis	126
	Problem Set 7.1	129
3.	The Capital Assets Pricing Model (CAPM)	130
	Problem Set 7.2	134
4.	Alternatives to CAPM	135

	CAPITAL STRUCTURE AS ECONOMIC DREAM	141
1.	The Modigliani and Miller Capital Structure Irrelevance Theorem (Part I)	142
	Claire A. Hill, Securitization: A Low-Cost Sweetener for	1.40
	Lemons Devilor Set 8.1	142
2	Problem Set 8.1 The Mediclioni and Miller Conital Structure Irrelevance	144
2.	The Modigliani and Miller Capital Structure Irrelevance Theorem (Part II)	144
	Glendale Federal Bank v. United States	145
	Problem Set 8.2	147
	9	
	SOME REAL-WORLD CONSIDERATIONS (PART 1)	151
	(IAKI I)	
1.	Dividend Policy	152
	Daniel J. Morrissey, Another Look at the Law of Dividends	152
	Problem Set 9.1	156
2.	Dividends and the Role of Share Buybacks	156
	William W. Bratton, The New Dividend Puzzle	157
	Robert J. Jackson, Jr., Stock Buybacks and Corporate Cashouts	159
	Problem Set 9.2	163
3.	Corporate Cash Retention	164
	Zohar Goshen, Shareholder Dividend Options	164
	In re Lehman Brothers Holdings Inc.	166
	Problem Set 9.3	168
4.	Conglomerates	169
	Problem Set 9.4	170
	10	
	SOME REAL-WORLD CONSIDERATIONS (PART 2)	175
1.	Debt and Taxes	175
	Katherine Pratt, The Debt-Equity Distinction in a Second-	150
	Best World	176
2	Problem Set 10.1 The Effects of Leverage	179 181
4.	THE PHECIS OF LEVELAGE	101

		Contents xv
	Problem Set 10.2	182
3.	The Costs of Debt	183
	Stephen J. Lubben, What We "Know" About Chapter 11 Cost Is Wrong	183
	Problem Set 10.3	186
	11	
	VALUING A FIRM	189
	VALUE IN CALL MANA	10)
	Consolidated Rock Products Co. et al. v. Du Bois	189
1.	Weighted Average Cost of Capital (WACC)	192
	Problem Set 11.1	193
2.	Discounted Cash Flow (DCF)	194
	Manichaean Capital, LLC v. SourceHOV Holdings, Inc.	194
	Problem Set 11.2	209
3.	Size Premiums and the Cost of Equity	210
4.	A Quick Note on Discount Rates	212
·	II	
	CAPITAL STRUCTURE	217
	12	
	COMMON SHARES	219
	BCE Inc. and Bell Canada v. 1976 Debentureholders	219
1.	The Stock Market and Initial Public Offerings (IPOs)	220
	iHEARTMEDIA Announces It Has Been Approved for	
	Listing on the Nasdaq Global Select Market	221
	Problem Set 12.1	223
2.	Legal Aspects of Share Ownership	224
	In re Appraisal of Dell Inc.	227
	Problem Set 12.2	243
3.	Valuing Shares	244
	Problem Set 12.3	246
4.	A Note on the Price/Earnings (P/E) Ratio and Other Multiples	246
	Problem Set 12.4	248

	PREFERRED SHARES	251
1.	Structural Issues (The Terms of the Deal)	252
	Restated Certificate of Incorporation of TWCD Holdco 613 Corp.	252
	Certificate of Amendment of Certificate of Incorporation of TWDC Holdco 613 Corp.	254
	Certificate of Designation of Series A Voting Preferred Stock of TWDC Holdco 613 Corp.	254
	Problem Set 13.1	260
2.	Interpreting the Terms	261
	PWP Xerion Holdings III LLC v. Red Leaf Resources, Inc.	261
	Poling v. CapLease, Inc.	270
	Problem Set 13.2	276
3.	Limitations on the Rights of Preferred Shareholders	276
	Frederick Hsu Living Trust v. ODN Holding Corporation	276
	Basho Technologies Holdco B, LLC v. Georgetown Basho	
	Investors, LLC	280
	Problem Set 13.3	287
	14	
		201
	BOND INDENTURES	291
	Quadrant Structured Products Co., Ltd. v. Vertin	292
1.	Interpreting the Indenture	296
	Sharon Steel Corporation v. The Chase Manhattan Bank, N.A., and Manufacturers Hanover Trust Company	296
	Problem Set 14.1	304
	In re Dura Automotive Systems, Inc., et al., Debtors	304
	Problem Set 14.2	310
2.	The Trust Indenture Act	311
	In the Matter of J.P. Morgan & Co.	312
	Problem Set 14.3	318
	Marblegate Asset Management, LLC v. Education	
	Management Finance Corp.	319
2	Problem Set 14.4	327
3.	The Indenture Trustee	329
	Racepoint Partners, LLC, et al. v. JP Morgan Chase Bank, N.A.	329
	Harris Trust and Savings Bank v. E-11 Holdings, Incorporated	333

		Contents xv
	Problem Set 14.5	338
4.	Distressed Debt Investors	338
	Michelle M. Harner, Trends in Distressed Debt Investing: An Empirical Study of Investor's Objectives	338
	15	
	BOND COVENANTS	343
	Marcel Kahan, Rethinking Corporate Bonds: The Trade-off	
	Between Individual and Collective Rights	344
	Problem Set 15.1	347
1.	Call Provisions	347
	Problem Set 15.2	348
	Chesapeake Energy Corp. v. Bank of New York Mellon	2.40
_	Trust Co.	349
2.	Change of Control Provision	354
3.	Restricted Payments	354
	Franklin Advisers, Inc. v. iHeart Communications Inc.	355
4.	Subsidiaries: Restricted and Unrestricted	359
5.	Debt Limitations and Baskets	360
6.	Implied Rights of Bondholders	360
	Metropolitan Life Insurance Company v. RJR Nabisco, Inc.	
	Problem Set 15.3	373
7.	Fights Within the Capital Structure	373
	In re MPM Silicones, LLC	373
	Problem Set 15.4	383
8.	The iHeart Bond Indenture and Note	384
	16	
	SYNDICATED LOAN AGREEMENTS	387
	Problem Set 16.1	389
	Rent-A-Center, Inc. Announces Amended Credit Facility	389
1.	Leveraged Loans	390
	Kirschener v. JPMorgan Chase Bank, N.A.	390
	Fitch U.S. Leveraged Loan Default Insight (TTM Institutional Loan Default Rate Tops 4%, Highest Since May 2010)	
	Second-Quarter 2020 (Issuance Drops, Quality Migrates	273
	Amid Coronavirus Disruptions)	394
2.	Trading Pieces of Loans	395

xviii | Corporate Finance

	Stoneniii Capitai Management, LLC v. Bank of the West	390
	Problem Set 16.2	403
3.	Decision-Making	403
	In re Chrysler LLC	403
	Problem Set 16.3	409
4.	Intercreditor Agreements	409
	Fitch Ratings: Unitranche Borrowers Eye Simple	440
	Execution Despite Risks	410
	In re Energy Future Holdings Corp.	411
5.	Duties of the Lead Bank	414
	Unicredito Italiano SPA v. JPMorgan Chase Bank	415
	Problem Set 16.4	422
6.	The iHeart Loan Agreement	423
	17	
	OPTIONS, WARRANTS, AND CONVERTIBLES	427
1.	Options	427
	Problem Set 17.1	431
2.	Warrants	431
	Paul R. Lohnes v. Level 3 Communications, Inc.	431
	Problem Set 17.2	438
	Virgin Galactic Announces Redemption of Public Warrants	439
3.	Option Pricing	440
	Arthur E. Wilmarth, Jr., <i>The Transformation of the U.S. Financial Services Industry</i> , 1975-2000: Competition,	
	Consolidation, and Increased Rates	441
4.	Convertibles	442
	William F. Lorenz v. CSX Corporation et al.	445
	Problem Set 17.3	450
	18	
	INTRODUCTION TO DERIVATIVES	455
1.	Forwards	457
1.	In re Eastern Livestock Co., LLC	458
	Problem Set 18.1	462
2.	Futures	463
۷.	Nagel v. ADM Investor Services, Inc.	463
	Problem Set 18.2	467
	1 TOOTOTT DOC 10.2	107

Contents	xix	

3.	Derivatives and Leverage	468
	Problem Set 18.3	469
4.	ISDA Agreements, Margin, and Termination	469
	Lehman Brothers International (Europe) (in Administration) v. AG Financial Products, Inc.	471
	Stephen J. Lubben, The Bankruptcy Code without Safe	
	Harbors	477
_	Problem Set 18.4	480
5.	Putting It All Together	481
	Mayagüez S.A. v. Citigroup, Inc.	481
	19	
	SWAPS	493
	Ilya Beylin, Designing Regulation for Mobile Financial	402
	Markets	493
1.	Interest Rate Swaps	496
2	Problem Set 19.1	498
2.	Foreign Exchange (FX) Swaps	498
2	Problem Set 19.2	500
3.	Total Return Swaps	500
	Stephen J. Lubben, <i>The Bankruptcy Code without Safe Harbors</i>	500
	CSX Corporation v. Children's Investment Fund Management (UK) LLP	502
	Problem Set 19.3	512
4.	Commodity Swaps	513
	Problem Set 19.4	514
5.	Credit Default Swaps	514
	Stephen J. Lubben, Credit Derivatives and the Future of Chapter 11	514
	Statement on Manufactured Credit Events by CFTC Divisions of Clearing and Risk, Market Oversight, and Swap Dealer and Intermediary Oversight	524
	20	
	INTRODUCTION TO ASSET SECURITIZATION	529
1.	Motivations	530
	Kenneth C. Kettering, Securitization and its Discontents:	531
	The Dynamics of Financial Product Development	531
	Problem Set 20.1	537

xx | Corporate Finance

2.	Mortgage-backed Securities	538
	United States of America v. UBS Securities LLC	540
	Problem Set 20.2	549
3.	Commercial Mortgage-backed Securities	549
	In re Trusts Established Under the Pooling & Servicing	
	Agreements	551
	Problem Set 20.3	570
	21	
	21	
	CMOs, CDOs, CLOs, & SYNTEHTICS	575
1.	Collateralized Mortgage Obligations (CMOs)	575
	Banca Cremi, S.A. v. Alex. Brown & Sons, Inc.	576
	Problem Set 21.1	582
2.	Collateralized Debt Obligations (CDOs)	582
	Financial Crisis Inquiry Commission, Chapter 8: The CDO Machine	582
	U.S. Bank National Association v. Triaxx Prime CDO 2006-1	585
	Problem Set 21.2	590
3.	Collateralized Loan Obligations (CLOs)	590
	Rating Action: Moody's places ratings on 859 securities from 358 US CLOs on review for downgrade; also places	504
	ratings on 25 linked securities on review for downgrade	594
	Problem Set 21.3	597
4.	"Synthetic" Securitization	597
	Bayerische Landesbank v. Aladdin Capital Management LLC	597
	Request for No-action Relief from Commodity Pool Operator Registration for the Federal National Mortgage Association and the Federal Home Loan Mortgage	
	Corporation	608
	Problem Set 21.4	613

Ш

|--|

	<u> </u>	
	TENDER OFFERS	619
	In re CNX Gas Corporation Shareholders Litigation	621
1.	Structural Issues	622
2.	Standstill Provisions and Negotiations	623
	Certicom Corp. v. Research in Motion Limited	624
	Problem Set 22.1	635
3.	"Medium Form" Mergers	636
	Appel v. Berkman	637
4.	The Williams Act	642
5.	Poison Pills	644
	In re Airgas Inc. Shareholder Litigation	644
	iHeartMedia Adopts Short-Term Stockholder Rights Plan	655
	23	
	Mergers	659
1.	Merger Agreements	660
	A. Market Risk	661
	B. Covenants, Reps, and Warranties	662
	CBS Inc. v. Ziff-Davis Publishing Co.	663
	C. Conditions	668
	In re IBP, Inc. Shareholders Litigation	668
	Problem Set 23.1	679
2.	Deal Structures	680
	North Valley Mall, LLC v. Longs Drug Stores California, LLC	681
3.	Taxes and Mergers	685
<i>3</i> . 4.	Breakup Fees	687
5.	iHeart's Merger Agreement	688
J.	1110011 0 11101201 / 121001110111	000

	ASSET SALES	693
	Bristol-Myers Squibb Announces Agreement Between Celgene and Amgen to Divest Otezla for \$13.4 Billion Agreement	693
1.	Asset Purchase Agreements	694
2.	Earn-Outs	695
	Airborne Health, Inc. v. Squid Soap, LP	695
3.	Voting Rights	703
	Hollinger Inc. v. Hollinger International, Inc.	704
	Problem Set 24.1	707
4.	The Limits of Asset Sales	707
	Darrel Franklin v. USX Corporation	707
	Fina, Inc. v. ARCO, BP Oil Company	716
	Anthony & Sylvan Pools Corporation v. Outdoor Sports Gear, Inc.	719
	Failure to Comply with Act; Voiding Sale or Transfer; Liability of Transferor	721
5.	Tax Matters	721
6.	A Short Note on Accounting and M&A	722
	25	
	LEVERAGED BUYOUTS AND DISTRESSED ACQUISITIONS	727
1.	Financing LBOs	728
	In re iHeart Media, Inc.	728
	Problem Set 25.1	737
2.	Fraudulent (and Voidable) Transfer Laws	737
	In re Jevic Holding Corporation	740
	Problem Set 25.2	750
	In re Tribune Company Fraudulent Conveyance Litigation	750
3.	A Note on Alternative Acquisition Structures	761
4.	Worker Adjustment and Retraining Notification (WARN) Act	762
	In the Matter of Flexible Flyer Liquidating Trust	762
5	Bankruptcy Risks of Distressed Acquisitions	767

EINIANGIAL DIGEDEGG	
FINANCIAL DISTRESS	1//3

	26	
	EXCHANGE OFFERS AND WORKOUTS	775
	SEC, Report on the Study and Investigation of the Work, Activities, Personnel and Functions of Protective and Reorganization Committees	775
1.	Workouts	776
	Moody's - Covenant-relief amendments skyrocket as revolving lenders extract concessions	777
	Progressive Cas. Ins. Co. v. Serta Simmons Bedding, LLC	779
2.	Exchange Offers	784
	Distressed Debt Exchanges Climb with Coronavirus Crisis (Pandemic-Induced Stress Causing an Increase in DDEs)	784
	Nicholas P. Saggese, et al., A Practitioner's Guide to Exchange Offers and Consent Solicitations	785
	Problem Set 26.1	787
3.	Exit Consents	788
	Moise Katz v. Oak Industries Inc.	788
	Assénagon Asset Management S.A. v. Irish Bank Resolution Corporation Limited	797
	Problem Set 26.2	818
4.	Workouts, Net Operating Losses (NOLs), and Cancellation of Debt (COD)	818
5.	iHeart's Exchange Offers	820
	iHeartCommunications, Inc. Announces Termination of Private Offers to Holders of Its Five Series of Priority Guarantee Notes and Its Senior Notes Due 2021 and Termination of Private Term Loan Offers	820
	27	
	PREPACKAGED CHAPTERS 11 CASES	825
1.	Deal Structure	827
	In re Metro-Goldwyn-Mayer Studios Inc., et al.	827
	Problem Set 27.1	847
2.	Solicitation Issues	847
	Stephen J. Lubben, <i>The Direct Costs of Corporate Reorganization: An Empirical Examination of Professional</i>	847

xxiv | Corporate Finance

	Fees in Large Chapter 11 Cases	
	In re Zenith Electronics Corporation	848
	In re Pioneer Finance Corp.	853
3.	Tax Issues	860
4.	Venue Issues	863
	In re Houghton Mifflin Harcourt Publishing Company	864
	28	
	INTRODUCTION TO CHAPTER 11	877
	In re Intervention Energy Holdings, LLC	878
1.	A Brief Introduction to Bankruptcy	882
	John D. Ayer et al., Welcome to the Jungle	882
2.	More on the DIP	886
	Michelle M. Harner, <i>The Search for an Unbiased Fiduciary in Corporate Reorganizations</i>	887
3.	The Role of Committees	890
٥.	In re Adelphia Communications Corporation	891
4.	Stabilizing the Business	895
	In the Matter of Kmart Corporation	896
	In re Windstream Holdings Inc.	900
	Problem Set 28.1	913
5.	Financing the Business	913
	In re Los Angeles Dodgers LLC	914
6.	iHeart in Bankruptcy	918
	• •	
	29	
	SELL AND LIQUIDATE REORGANIZATIONS	921
	Stephanie Ben-Ishai & Stephen J. Lubben, Involuntary	2.4
	Creditors and Corporate Bankruptcy	921
1.	The Auction Process	924
2	In re Innkeepers USA Trust	925
2.	Assignment of Key Agreements	933
2	In re Sears Holdings Corporation	934
3.	Credit Bidding	942
	In re SubMicron Systems Corporation Problem Set 29.1	942 947
4.	-	947
4.	Successor Liability and 363 Sales Lefever v. K.P. Hovnanian Enterprises, Inc.	947
	Leiever v. K.F. Hovnaman Emerprises, mc.	740

		Contents	XXV
	In re General Motors Corp.	956	
	Problem Set 29.2	966	
	30		
	CHAPTER 11 PLANS	971	
1.	Exclusivity, Plan Solicitation, Disclosure Statements, and		
	Voting	972	
	Kirk v. Texaco, Inc.	972	
	Problem Set 30.1	980	
2.	Chapter 11 Plans	980	
	In re Tribune Company, et al.	981	
3.	Confirmation	989	
	In re Adelphia Communications Corp.	989	
4.	Cramdown	1001	
• •	In re Genco Shipping & Trading Limited	1002	
5.	Discharge and Exit	1012	
6.	iHeart's Plan	1012	
	iHeartMedia Announces Confirmation of Plan of Reorganization	1012	
Index		1017	