

CONTENTS

<i>Preface to the Fourth Edition</i>	<i>xxvii</i>
<i>Acknowledgments</i>	<i>xxix</i>
<i>Introduction</i>	<i>xxxiii</i>
<i>How to Use This Book</i>	<i>xxxv</i>

I

VALUATION 1

1

CORPORATE FINANCE, ACCOUNTING, AND CASH FLOWS 3

1. Accounting: An Overview	4
2. Balance Sheets	6
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	18
6. Financial Ratios: Measures of Firm Health	19
7. SEC Reports	21
SEC Charges Comscore Inc. and Former CEO with Accounting and Disclosure Fraud	21
8. The Case Study: iHeartMedia, Inc.'s Form 10-K	22

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	32

Harry Wilson, <i>Budget 2012: Perpetual Bonds Issue Examined</i>	32
Problem Set 2.3	35
4. Annuities	36
United States v. Beasley	38
Problem Set 2.4	41

3

DISCOUNT RATES **45**

1. Expected Return	46
Problem Set 3.1	47
2. Opportunity Cost of Capital	47
Problem Set 3.2	48
BP America Production Company v. Colorado Department of Revenue	48
3. Risk	55
4. Capital Structure and the Absolute Priority Rule	56
Elizabeth Warren, <i>A Theory of Absolute Priority</i>	56
Problem Set 3.3	57
5. The Role of Inflation	58
Problem Set 3.4	60
6. The Yield Curve	60
Problem Set 3.5	62

4

THE NET PRESENT VALUE RULE AND SOME COMPETITORS **67**

Problem Set 4.1	69
1. Comparing Competing Projects: More on the NPV Rule	69
Problem Set 4.2	72
2. Comparing Competing Projects: Internal Rate of Return	73
Problem Set 4.3	76
3. Payback and Hurdle Rates	77
Problem Set 4.4	78

5

VALUING BONDS **83**

1. Types of Bonds	84
2. Bond Pricing and the Price/Yield Relationship	86
Problem Set 5.1	88
3. Valuing a Bond as an Annuity	89
Problem Set 5.2	91
4. Yield to Maturity	91
Problem Set 5.3	92
5. Bond Ratings	92
Abu Dhabi Commercial Bank v. Morgan Stanley & Co.	95

6

RISK AND RETURN **103**

1. Diversification	104
In re JP Morgan Chase Bank	104
Problem Set 6.1	108
2. Firm-Specific and Systematic Risk	109
Gagliardi v. Trifoods International, Inc.	110
3. Measuring Sensitivity to Systematic Risk—Beta	111
Problem Set 6.2	113
4. The Law of One Price (and a Bit on Short Selling)	113
Zlotnick, Albert M. v. Tie Communications & L.W. Kifer	115

7

THE CAPITAL ASSET PRICING MODEL **123**

1. Portfolio Theory	124
Sarah Pei Woo, <i>Regulatory Bankruptcy: How Bank Regulation Causes Fire Sales</i>	125
2. The Efficient Capital Markets Hypothesis	128

Lawrence A. Cunningham, <i>From Random Walks to Chaotic Crashes: The Linear Genealogy of the Efficient Capital Market Hypothesis</i>	128
Problem Set 7.1	132
3. The Capital Assets Pricing Model (CAPM)	132
Problem Set 7.2	137
4. Alternatives to CAPM	138

8

CAPITAL STRUCTURE AS ECONOMIC DREAM 143

1. The Modigliani and Miller Capital Structure Irrelevance Theorem (Part I)	144
Claire A. Hill, <i>Securitization: A Low-Cost Sweetener for Lemons</i>	144
2. Modigliani and Miller Dividend Irrelevance	146
Daniel J. Morrissey, <i>Another Look at the Law of Dividends</i>	147
William W. Bratton, <i>The New Dividend Puzzle</i>	150
Robert J. Jackson Jr., Stock Buybacks and Corporate Cashouts	152
Problem Set 8.1	153
3. The Effects of Leverage	154
Problem Set 8.2	155
4. The Modigliani and Miller Capital Structure Irrelevance Theorem (Part II)	155
Glendale Federal Bank v. United States (Fed. Cl. 1997)	156
Problem Set 8.3	158
5. Weighted Average Cost of Capital (WACC)	158
Problem Set 8.4	159

9

SOME REAL-WORLD CONSIDERATIONS 163

1. Taxes and Capital Structure	163
--------------------------------	-----

Katherine Pratt, <i>The Debt-Equity Distinction in a Second-Best World</i>	163
Problem Set 9.1	167
2. The Costs of (Too Much) Debt	168
Stephen J. Lubben, <i>What We “Know” About Chapter 11 Cost Is Wrong</i>	168
Problem Set 9.2	171
3. The Cost of Capital Redux	172
Problem Set 9.3	173

10

VALUING A FIRM **177**

Consolidated Rock Products Co. v. Du Bois	177
1. Discounted Cash Flow (DCF)	180
Manichaeon Capital, LLC v. SourceHOV Holdings, Inc.	181
2. Levering and Unlevering Betas	194
Problem Set 10.1	196
3. Size Premiums and the Cost of Equity	197
4. The Price/Earnings (P/E) Ratio and Other Multiples	199
Problem Set 10.2	201
5. Comparable Companies Analysis	201
In re Chemtura Corporation	201
Problem Set 10.3	206

II

CAPITAL STRUCTURE **211**

11

COMMON SHARES **213**

BCE Inc. and Bell Canada v. 1976 Debentureholders	213
1. The Stock Market and Initial Public Offerings (IPOs)	214

iHeartMedia Announces It Has Been Approved for Listing on the Nasdaq Global Select Market	215
Problem Set 11.1	217
2. Legal Aspects of Share Ownership	218
In re Appraisal of Dell Inc.	221
Problem Set 11.2	237
3. Hedge Funds and Shareholder Activism	238
Brian R. Cheffins & John Armour, <i>The Past, Present, and Future of Shareholder Activism by Hedge Funds</i>	239

12

PREFERRED SHARES	245
1. Structural Issues (The Terms of the Deal)	246
Restated Certificate of Incorporation of TWDC Holdco 613 Corp.	246
Certificate of Amendment of Certificate of Incorporation of TWDC Holdco 613 Corp.	248
Certificate of Designation of Series A Voting Preferred Stock of TWDC Holdco 613 Corp.	248
Problem Set 12.1	253
2. Interpreting the Terms	255
Benchmark Capital Partners IV, L.P. v. Richard Vague	255
PWP Xerion Holdings III LLC v. Red Leaf Resources, Inc.	265
Poling v. CapLease, Inc.	274
Problem Set 12.2	279
3. Limitations on the Rights of Preferred Shareholders	279
Frederick Hsu Living Trust v. ODN Holding Corporation	279
Basho Technologies Holdco B, LLC v. Georgetown Basho Investors, LLC	283
Problem Set 12.3	290

13

BOND INDENTURES		293
1. The Indenture		294
Quadrant Structured Products Co., Ltd. v. Vertin		294
Cortlandt Street Recovery Corp. v. TPG Capital Management, L.P.		298
1. Interpreting the Indenture		304
Sharon Steel Corporation v. The Chase Manhattan Bank, N.A., and Manufacturers Hanover Trust Company		304
Problem Set 13.1		312
2. The Trust Indenture Act		312
In the Matter of JPMorgan & Co. Incorporated File No. 25-1 Securities and Exchange Commission		313
Problem Set 13.2		320
Marblegate Asset Management, LLC v. Education Management Finance Corp.		321
CNH Diversified Opportunities Master Account, L.P. v. Cleveland Unlimited, Inc.		330
Problem Set 13.3		348
3. Registered Versus “Private for Life”		348
4. The Indenture Trustee		350
Racepoint Partners, LLC, et al. v. JPMorgan Chase Bank, N.A.		350
Problem Set 13.4		353

14

BOND COVENANTS		357
Marcel Kahan, <i>Rethinking Corporate Bonds: The Trade-off Between Individual and Collective Rights</i>		358
Problem Set 14.1		361
1. Call Provisions		361
Problem Set 14.2		362
Chesapeake Energy Corp. v. Bank of New York Mellon Trust Co.		363
2. Change of Control Provision		368

3. Restricted Payments	368
Franklin Advisers, Inc. v. iHeart Communications Inc.	369
4. Subsidiaries: Restricted and Unrestricted	372
5. Debt Limitations and Baskets	373
6. Implied Rights of Bondholders	374
Metropolitan Life Insurance Company v. RJR Nabisco, Inc.	374
Problem Set 14.3	386
7. Fights Within the Capital Structure	386
In re MPM Silicones, LLC	386
Problem Set 14.4	396
8. The iHeart Bond Indenture and Note	397

15

SYNDICATED LOAN AGREEMENTS 401

1. Leveraged Loans	403
Kirschner v. JPMorgan Chase Bank, N.A.	403
Problem Set 15.1	406
Hanesbrands Announces Successful Pricing of Senior Secured Term Loan B Facility	406
Hanesbrands Inc.'s Senior Secured Credit Facilities Lowered to 'BB-' on Term Loan B Upsizing, Existing Notes Remain 'B+'	407
U.S., Europe 2025 Leveraged Finance Default Rate Forecasts Revised Up	408
2. Trading Pieces of Loans	
Stonehill Capital Management, LLC v. Bank of the West	410
Problem Set 15.2	417
3. Decision-Making	418
In re Chrysler LLC	418
Problem Set 15.3	424
4. Intercreditor Agreements	424
In re 85 Flatbush RHO Mezz LLC	424
5. Duties of the Lead Bank	429
Unicredito Italiano SPA v. JPMorgan Chase Bank	429
Problem Set 15.4	437

6. Private Credit	437
Fitch Ratings: Unitranche Borrowers Eye Simple Execution Despite Risks	438
7. iHeart’s Loan Agreements	439

16

OPTIONS AND WARRANTS	443
1. Options	443
Problem Set 16.1	447
Kessev Tov, LLC v. Doe(s)	447
2. Warrants	453
Paul R. Lohnes v. Level 3 Communications, Inc.	453
Problem Set 16.2	460
3. Option Pricing	460
Arthur E. Wilmarth, Jr., <i>The Transformation of the U.S. Financial Services Industry, 1975-2000: Competition, Consolidation, and Increased Risks</i>	461
4. iHeart Warrants	463

17

CONVERTIBLES	467
1. Convertible Preferred Stock	467
2. Venture Capital Funds	470
Ronald J. Gilson, <i>Engineering a Venture Capital Market: Lessons from the American Experience</i>	471
Robert P. Bartlett, III, <i>Venture Capital, Agency Costs, and the False Dichotomy of the Corporation</i>	473
Problem Set 17.1	477
3. Convertible Bonds	478
William F. Lorenz v. CSX Corporation et al.	480
Problem Set 17.2	485
4. Lucid Group Convertible Notes	486

18

INTRODUCTION TO DERIVATIVES	489
1. Forwards	491
In re Eastern Livestock Co., LLC	492
Problem Set 18.1	496
2. Futures	497
In Re TOTSA TotalEnergies Trading SA	498
Problem Set 18.2	510
3. Derivatives, Leverage, and Margin	511
Problem Set 18.3	512
4. ISDA Agreements and Termination	513
Lehman Brothers International (Europe) (in Administration) v. AG Financial Products, Inc.	514
Stephen J. Lubben, <i>The Bankruptcy Code Without Safe Harbors</i>	520
Problem Set 18.4	523

19

SWAPS	527
Ilya Beylin, <i>Designing Regulation for Mobile Financial Markets</i>	527
1. Interest Rate Swaps	530
Problem Set 19.1	532
2. Foreign Exchange (FX) Swaps	532
Problem Set 19.2	534
3. Total Return Swaps	534
ECD Investor Group v. Credit Suisse International	534
Problem Set 19.3	545
4. Commodity Swaps	545
Problem Set 19.4	546
5. Credit Default Swaps	547
In re Credit Default Swaps Auctions Litigation	547
Statement on Manufactured Credit Events by CFTC Divisions of Clearing and Risk,	562

Market Oversight, and Swap Dealer and Intermediary Oversight Stephen J. Lubben & Rajesh P. Narayanan, <i>CDs and the Resolution of Financial Distress</i>	563
--	-----

20

INTRODUCTION TO ASSET SECURITIZATION	569
US Auto ABS Performance Supported by Tariff-Driven Used Car Market Boost	570
1. Motivations	570
Kenneth C. Kettering, <i>Securitization and Its Discontents: The Dynamics of Financial Product Development</i>	571
Problem Set 20.1	578
2. Mortgage-Backed Securities	578
United States of America v. UBS Securities LLC	580
Problem Set 20.2	589
3. Commercial Mortgage-Backed Securities	589
In re Trusts Established Under the Pooling & Servicing Agreements	591
Problem Set 20.3	611

21

CMOs, CDOs, CLOs, & SYNTHETICS	615
1. Collateralized Mortgage Obligations (CMOs)	615
Banca Cremi, S.A. v. Alex. Brown & Sons, Inc.	616
Problem Set 21.1	622
2. Collateralized Debt Obligations (CDOs)	622
Financial Crisis Inquiry Commission, Chapter 8: The CDO Machine	622
U.S. Bank National Association v. Triaxx Prime CDO 2006-1	625
Problem Set 21.2	630
3. Collateralized Loan Obligations (CLOs)	630
Problem Set 21.3	635

4. “Synthetic” Securitization	635
Bayerische Landesbank v. Aladdin Capital Management LLC	635
Request for No-Action Relief from Commodity Pool Operator Registration for the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation	646
Problem Set 21.4	651

III

MERGERS AND ACQUISITIONS 657

22

TENDER OFFERS 659

In re CNX Gas Corporation Shareholders Litigation	661
1. Structural Issues	663
2. Standstill Provisions and Negotiations	664
Certicom Corp. v. Research in Motion Limited	665
Problem Set 22.1	675
3. “Medium Form” Mergers	677
Appel v. Berkman	678
4. The Williams Act	682
5. Poison Pills	684
In re Airgas Inc. Shareholder Litigation	685
iHeartMedia Adopts Short-Term Stockholder Rights Plan	695

23

MERGERS 699

1. Merger Agreements	700
A. Market Risk	701
B. Covenants, Reps, and Warranties	702
CBS Inc. v. Ziff-Davis Publishing Co.	702
C. Conditions	708
In re IBP, Inc. Shareholders Litigation	708

Problem Set 23.1	719
2. Deal Structures	719
North Valley Mall, LLC v. Longs Drug Stores California, LLC	721
3. Taxes and Mergers	725
4. Deal Protections—Breakup Fees	726
Chemtrade Electrochem Inc. v. Superior Plus Corporation	728
5. Sample Merger Agreement	740

24

ASSET SALES **745**

Bristol-Myers Squibb Announces Agreement Between Celgene and Amgen to Divest OTEZLA® for \$13.4 Billion Agreement Contingent on FTC Consent Decree and Closing of Pending Bristol- Myers Squibb-Celgene Merger Expected to Close by End of 2019	745
1. Asset Purchase Agreements	746
2. Earn-Outs	747
Airborne Health, Inc. v. Squid Soap, LP	747
3. Voting Rights	755
Hollinger Inc. v. Hollinger International, Inc.	755
Problem Set 24.1	758
4. The Limits of Asset Sales	759
Darrel Franklin v. USX Corporation	759
Fina, Inc. v. ARCO, BP Oil Company	767
Anthony & Sylvan Pools Corp. v. Outdoor Sports Gear, Inc.	771
Failure to Comply with Act; Voiding Sale or Transfer; Liability of Transferor	772
5. Tax Matters	773
6. A Short Note on Accounting and M&A	773

25

**LEVERAGED BUYOUTS AND
PRIVATE EQUITY** **777**

1. Private Equity Funds	778
-------------------------	-----

Elisabeth De Fontenay & Yaron Nili, <i>Side Letter Governance</i>	779
Problem Set 25.1	784
2. LBOs	785
In re Samson Resources Corp.	785
Problem Set 25.2	801
3. Fraudulent (and Voidable) Transfer Laws	801
In re Jevic Holding Corporation	804
Problem Set 25.3	814
In re Nine West LBO Securities Litigation	814
Problem Set 25.4	825

IV

FINANCIAL DISTRESS 831

26

EXCHANGE OFFERS AND LMES 833

SEC, Report on the Study and Investigation of the Work, Activities, Personnel and Functions of Protective and Reorganization Committees	833
1. Exchange Offers	834
Nicholas P. Saggese et al., <i>A Practitioner's Guide to Exchange Offers and Consent Solicitations</i>	836
Problem Set 26.1	838
2. Exit Consents	838
Moise Katz v. Oak Industries Inc.	839
Assénagon Asset Management S.A. v. Irish Bank Resolution Corporation Limited	848
Problem Set 26.2	868
3. Liability Management Exercises (LMEs)	869
In re Serta Simmons Bedding, LLC	869
4. iHeart's Exchange Offers	888
iHeartCommunications Inc. Rating Lowered to 'SD' from 'CC' on Debt Restructuring	888

27

PREPACKAGED CHAPTER 11 CASES	893
1. Deal Structure	895
In re Metro-Goldwyn-Mayer Studios Inc., et al.	895
Problem Set 27.1	914
2. Solicitation Issues	915
In re Pioneer Finance Corp.	915
3. Tax Issues	923
4. Venue Issues	925
In re Houghton Mifflin Harcourt Publishing Company	926

28

INTRODUCTION TO CHAPTER 11	939
In re Intervention Energy Holdings, LLC	940
1. A Brief Introduction to Bankruptcy	944
John D. Ayer et al., <i>Welcome to the Jungle</i>	944
2. More on the DIP	948
Michelle M. Harner, <i>The Search for an Unbiased Fiduciary in Corporate Reorganizations</i>	949
3. The Role of Committees	952
In re Adelpia Communications Corporation	953
4. Stabilizing the Business	957
In the Matter of Kmart Corp.	958
In re Windstream Holdings, Inc.	962
Problem Set 28.1	974
5. Financing the Business	975
In re Los Angeles Dodgers LLC	975
6. iHeart in Bankruptcy	980

29

SELL AND LIQUIDATE REORGANIZATIONS **983**

Stephanie Ben-Ishai & Stephen J. Lubben, <i>Involuntary Creditors and Corporate Bankruptcy</i>	983
1. The Auction Process	986
In re Innkeepers USA Trust	987
2. Assignment of Key Agreements	995
In re Old Market Group Holdings Corp.	996
3. Credit Bidding	1006
In re The Free Lance–Star Publishing Co. of Fredericksburg, VA	1006
Problem Set 29.1	1013
4. Successor Liability and 363 Sales	1013
Lefever v. K.P. Hovnanian Enterprises, Inc.	1014
In re General Motors Corp.	1022
Problem Set 29.2	1032

30

CHAPTER 11 PLANS **1035**

1. Exclusivity, Plan Solicitation, Disclosure Statements, and Voting	1036
Kirk v. Texaco, Inc.	1036
Problem Set 30.1	1044
2. Chapter 11 Plans	1044
In re Tribune Company, et al.	1045
3. Confirmation	1053
In re Adelphia Communications Corp.	1053
4. Cramdown	1065
In re Genco Shipping & Trading Limited	1066
5. Discharge and Exit	1075
6. iHeart’s Plan	1076
iHeartMedia Announces Confirmation of Plan of Reorganization	1076
iHeartCommunications Inc. Upgraded to ‘CCC+’ from ‘SD’; Outlook Negative	1077

<i>Index</i>	<i>1083</i>
--------------	-------------