nameindex

Abreo, Leslie, 701 Acker, Rolf-Dieter, 931 Adams, Paul D., 789n Adlerson, Michael J., 746n Agrawal, A., 542n Ainina, Fall, 890n Alderson, Michael J., 746n Allen, Jay R., 918n Allen, Jeffrey W., 919n Altman, Edward I., 852n, 858n, Web Extension 24B Amihud, Yakov, 365n Amram, Martha, 446n, 478n Anderson, Kenneth E., 905n Andrade, Gregor, 584n Appleton, Elaine L., 790 Asquith, Paul, 580n, 762n

Baker, George P., 918n Baker, H. Kent, 664n, 684n, 890n Baker, Malcolm, 582n, 584n Bansal, Vipul K., 832n Barberis, Nicholas, 271, 271n, 304n Barclay, Michael J., 582n Baskin, Jonathon, 580n Bautista, Alberto J., 724n Benartzi, Shlomo, 646n Ben-Horim, Moshe, 622n Beranek, William, 799n, 861n Berg, Sanford V., 916n Berger, Philip G., 488n, 884n Berk, Jonathan B., 270n Bernanke, Ben, 581n Berra, Yogi, 576 Betker, Brian L., 865n Bhagwat, Yatin, 363n Bielinski, Daniel W., 890n Billingsley, Randall S., 762n Black, Bernard S., 915n Black, Fischer, 325-330 Blake, Marshall, 834n Blickman, E. J., 717n Block, S. B., 396n, 840n Blume, Marshall E., 260, 260n, 262, 262n Bodnar, Gordon M., 821n Boehmer, Robert, 861n Boeskey, Ivan, 913n, 914 Born, Jeffrey A., 647n Bowie, David, 706 Bradley, Stephen P., 402n Brav, Alon, 661n Brennan, Michael, 446n, 478n Brick, I. E., 540n Brigham, Eugene F., 350n Brook, Yaron, 646n Brooks, Robert, 285n Brown, David T., 858n

Brown, Keith C., 746n, 832n Bruner, Robert E., 347n Bubnys, Eward L., 267n Buffett, Warren, 156, 517, 664n, 881 Burns, N., 542n Butler, J. S., 441n

Callahan, Carolyn M., 574n Campbell, John Y., 215n Carbaugh, Robert, 938n Carpenter, Jennifer, 543n Cason, Roger, 397n Castelino, Mark G., 840n Chadha, S., 542n Chambers, Raymond, 918 Chan, Louis C. K., 215n Chan, Su Han, 916n Chance, Don M., 314n, 324n, 331n, 823n Chaney, Paul K., 397n Chang, Rosita P., 643n, 952n Chapman, Alger B. "Duke," 823n Charlton, William, Jr., 646n Chatterjee, Sris, 865n Chen, Carl R., 918n Chen, Houng Yhi, Web Extension 12B Chen, Yehning, 858n Chiang, Raymond C., 703n Choi, Jongmoo Jay, 936n Choi, Sunho, 799n Clements, Jonathan, 304n Clemmens, Peter J., III, 441n Coffin, William F., 122n Colvin, Geoffrey, 99, 474 Conine, Thomas, 587n Constantinides, George, 304n, 688n Cooley, Philip L., 607n, 622n Cooney, John W., 688n Copeland, Thomas E., 266n, 536 Corman, Linda, 730 Cornwell, Christopher, 799n Coulson, Crocker, 122n Coy, Peter, 457n Crick Trevor, 397n Crum, Roy, 929 Crutchley, Claire E., 632n

Daleiden, Joe, 397n Daniel, Kent, 272n Daniels, Joseph P., 938n Danneburg, Bruce D., 441n Daouk, Hazem, 545n Daves, Phillip R., 98n, 494n, 527n, 622n, 623n, 624n, *Web Extension 12B* DeAngelo, Harry, 622n, 641n, 644n, 661n, 691n DeAngelo, Linda, 641n, 644n, 661n, 691n DeBondt, W. F. M., 270n, 303n De Fond, M., 545n Denis, David J., 542n, 657n, 690n Dhillon, Upinder S., 865n Dichev, Ilia D., 269n Dill, David A., 724n Dixit, Avinash K., 458n Downs, Thomas W., 622n Dravid, Ajay, 664n Dugan, Michael T., 632n Duncan, Jerome, 916n Durfee, Don, 486n Dyl, Edward, 646n

Eadie, Alexandra, 644 Easterwood, John C., 574n Ebbers, Bernie, 685 Eberhart, Allan C., 861n Eckbo, B. Espen, 885n Edelman, Richard B., 684n Edwards, Franklin, 21n Ehrbar, Al, 543n Ehrhardt, Michael C., 98n, 342n, 363n, 494n, 527n, 622n, 623n, 624n, 753n, Web Extension 12B Einzig, Robert, 832n Eisemann, Peter C., 354n Eisenberg, David, 548n Emery, Douglas R., 762n Esty, Benjamin C., 703n

Fama, Eugene F., 231, 231n, 267–270, 267n, 350, 350n Farber, D. B., 547n Fastow, Andy, 717n Fee, T., 545n Ferris, Stephen P., 547n Fink, Dennis, 785 Finnerty, John D., 703n Finucane, Thomas J., 734n Followill, Richard A., 789n Fooladi, Iraj, 746n Francis, Jack C., 840n Frank, Murray Z., 584n Frankel, Jeffrey A., 952n Fraser, Donald R., 746n Fraser, Lyn M., 95n French, Kenneth R., 231, 231n, 267-270, 267n, 350, 350n Frey, Sherwood C., Jr., 402n Fridson, Martin S., 918n Friedman, Phillip, 916n Froot, Kenneth A., 834n Galai, D., 630n Gallagher, Timothy J., 840n

Gallinger, George W., 789n Garvey, Gerald T., 574n

1047

Gay, Gerald D., 657n, 821n Gentry, James A., 780 Gervais, Simon, 272n Geske, Robert, 478n, 630n Ghosh, Chinmoy, 647n Ghosh, Dilip K., 632n Gillan, Stuart L., 539n Gilson, Stuart C., 858n, 860n Gitman, Lawrence J., 356n, 782n Glassman, David M., 686n Goedhart, Marc, 98n, 536n Golden, Mark, 818 Goldenberg, David H., 267n Gonedes, N., 646n Goodman, Laurie S., 832n Gordon, Myron J., 288, 642, 642n Gorham, John, 742 Goyal, Vidhan K., 584n Graham, John R., 356n, 396n, 476n, 585n, 622n, 661n Green, Lee, 576 Green, Richard C., 270n Greenwood, Robin, 584n Grullon, Gustavo, 644n, 653n Grundfest, Joseph A., 915n Guffey, Daryl M., 867n Gunn, Jack A., 441n Gup, Benton, 654n Guy, James, 260n Hadlock, C., 545n Haggin, Leslie, 745 Haldeman, Robert G., Web Extension 24B Hamada, Robert S., 587, 587n, 613, 624 Hammer, Jerry A., 936n Hanouna, P., 542n Hansen, Robert S., 632n Harikumar, T., 762n Harlan, Neil, 687 Harris, John M., Jr., 622n Harris, Milton, 304n, 574n, 688n Harris, Robert S., 264n, 347n, 350n, 354n, 696n, 890n Hartzell, John, Web Extension 24B Harvey, Campbell R., 356n, 396n, 476n, 585n, 661n Hayt, Gregory S., 821n Healy, P., 646n Heck, J. Louis, 607n Helms, Billy, 285n Hendershott, Robert J., 646n Henry, David, 915 Herbst, Anthony F., 832n Higgins, Robert C., 347n Hirshleifer, David, 272n Hitt, Greg, 745 Hochman, Shalom, 622n Hopwood, Jim, 785 Houston, Arthur L., Jr., 746n Houston, Carol Olson, 746n Hull, John C., 314n, 324n, 331n, 478n Hunter, William C., 936n Ibbotson, Roger G., 683n

Ifflander, A. James, 789n Ikenberry, David, 653n Immelt, Jeff, 2 Impson, C. Michael, 647n Irvine, Steven, 172 Iskandor-Datta, Mai E., 762n Israel, Ronen, 574n Jackson, Thomas H., 858n Jahera, John S., Jr., 657n Jandik, Tomas, 547n Janjigian, Vahan, 762n Jegadeesh, N., 270n, 303n Jensen, Michael C., 7n, 250n Jessell, Kenneth A., 390n Jin, Li, 545n John, Kose, 860n Johnson, Shane A., 919n Jurin, Bruce, 688n Kadapakkam, Palani-Rajan, 574n, 762n Kahn, Jeremy, 83n Kahneman, Daniel, 271 Kaiser, Kevin M. J., 858n Kale, Jayant R., 657n Kalotay, Andrew J., 696n, 701, 703n Kamath, Ravindra R., 585n, 632n Kapell, Kerry, 745 Kaplan, Steven N., 584n, 624n, 890n, 919n, Web Extension 25A Karafiath, Imre, 647n Karceski, Jason, 215n Karpoff, Jonathan M., 545n Kasa, Kenneth, 218 Kaufman, Daniel, 890n Kedia, S., 542n Keillor, Garrison, 271 Kelly, William A., Jr., 632n Kensinger, John W., 703n, 916n Keown, Arthur J., 916n Kester, George W., 952n Keynes, John Maynard, 304 Kim, Seung H., 397n Kim, Suk H., 397n Kim, Yong H., 789n Kiymaz, Halil, 890n Klein, April, 657n Klein, Daniel P., 919n Knez, Peter J., 269n Kolb, Robert W., 262n Koller, Tim, 98n, 536, 536n Kontes, Peter W., 536n Kramer, John L., 905n Kravis, Henry, 188 Kreinin, Mordechai, 938n Krishnan, V. Sivarama, 762n Kulatilaka, Nalin, 446n, 478n

Lakonishak, Josef, 215n Lane, William R., 657n, 915n Lang, Larry, 488n, 860n, 884n Lange, Bruce, 832n La Porta, R., 545n Laufman, Gary, 548n Lauterbach, Beni, 753n Lawless, Robert M., 547n Lease, Ronald C., 728n, 865n Lee, Charles M. C., 545n Lee, Charles M. C., 545n Lee, Hei Wai, 780 Lee, Inmoo, 357 Lee, Insup, 952n Lee, Wayne Y., 724n Lee, Young-jin, 647n Lehn, Kenneth, 902n Leonard, David C., 753n Lettau, Martin, 215n Levine, Dennis, 913n Levy, Robert, 262, 262n Lewis, Craig M., 762n Lincoln, Abraham, 11 Linke, Charles M., 285n Lintner, John, 642, 642n Liu, Pu, 347n Lochhead, Scott, 357 Loderer, Claudio, 688n Long, Michael S., 584n, 762n Lopez-de-Silanes, F., 545n Loughran, Tim, 269n, 681, 681n Luehrman, Timothy A., 463n Lummer, Scott L., 746n, 919n MacKenzie, Kenneth F., 890n Mackie-Mason, Jeffrey K., 622n Madura, Jeff, 938n Mahady, Nelda, 834n Mahajan, Arvind, 953n Makhijo, Anil, 547n Malitz, Ileen, 584n Malkiel, Burton G., 200, 215n, 304n Malmendier, Ulrike, 272, 272n, 547n Malone, R. Phil, 664n Malthus, Jonathan, 172 Mankins, Michael C., 536n Marchard, Patrick H., 789n Margrabe, W., 478n Markowitz, Harry, 247n Marr, M. Wayne, 755n Marshall, John F., 832n Marston, Felicia C., 264n, 350n Marston, Richard C., 821n Martin, Gerald S., 545n Martin, John D., 536n, 703n, 724n, 916n Masulis, Ronald, 622n, 630n Maxwell, Charles E., 782n Mayo, Mike, 83 McCafferty, Joseph, 122n, 536, 744 McCarty, Daniel E., 390n McConnell, John J., 728n, 865n, 919n McDaniel, William R., 390n McKinnon, John D., 745 McMahan, John, 487 McNichols, Maureen, 664n McTaggart, James M., 536n Meckling, William H., 7n Mehotra, V., 583, 583n Mello, John P., Jr., 840 Mendelson, Haim, 365n Mercurio, Vincent, 356n Meriwether, John, 824 Merton, Robert, 330, 824 Mian, Shehzad L., 789n Michaely, Roni, 644n, 646n, 661n, 686n Mikkelson, W., 583, 583n Miles, James A., 632n Milken, Michael, 188-189, 705 Miller, Edward M., 397n Miller, Merton H., 575-580, 575n, 576n, 577n, 607, 607n, 617, 617n, 619n, 641,641n

Miller, Tom W., 786n Mintz, S. L., 785 Mitchell, Karlyn, 800n Mitchell, Mark L., 657n, 902n, 905n Modigliani, Franco, 575-580, 575n, 576n, 607, 607n, 641, 641n Mohan, Nancy, 890n, 918n Mohr, Rosanne, 574n Moore, J. S., 396n Moore, Norman H., 665n Moore, William T., 753n, 861n, 867n Morck, Randalla, 884n Moses, E. A., 782n Mukherjee, Tarun K., 397n, 441n, 729n, 890n Mulherin, Harold, 905n Mullins, David W., Jr., 580n, 762n, 824 Murrin, Jack, 536 Muscarella, Chris J., 683n Myers, Randy, 774, 785 Myers, Stewart C., 545n, 724n, Web Extension 12B Myerson, Roger, 438n Naik, Vasant, 270n Nam, Doowoo, 654n Nam, Jouahn, 821n Narayanan, M. P., 703n, Web Extension 24B Netter, Jeffry M., 657n Ng, David, 545n Nippani, Srinivas, 347n Noe, Thomas H., 657n Norton, Edgar, 585n Odean, Terrance, 272n Ofek, Eli, 488n, 884n Ofer, Aharon R., 701n Opler, Tim, 800n O'Reilly, Brian, 270n Ormiston, Aileen, 95n Palepu, K., 646n Palmon, Oded, 540n, 622n Park, C., 545n Parrino, R., 546n Partch, M., 583, 583n Pearson, Judith, 840 Peck, Matthew, Web Extension 24B Perot, H. Ross, 919 Peters, Donald, 397n Peterson, David R., 664n, 665n Peterson, Pamela P., 664n, 665n Pettit, R. Richardson, 645n Pettway, Richard H., 664n Petty, J. William, 536n Phelps, Katherine L., 753n Phillips, Aaron L., 664n Pickens, T. Boone, 188, 914 Pilotte, Eugene, 548n Pindyck, Robert S, 458n Pinegar, J. Michael, 585n, 632n Poell, Gry E., 664n Pollert, W. R., 717n Pope, Thomas R., 905n Prasad, Anita Mehra, 936n Pugh, William, 657n

Quattrone, Frank, 686

Radaker, Byron C., 692 Rajan, Raghuram, 584, 956-957 Ramierz, Gabriel G., 865n Randall, Maury R., 397n Rao, Ramesh P., 762n Raviv, Artur, 574n Ready, Mark J., 269n Reed, Debra K., 919n Reichert, A. K., 396n Rhee, S. Ghon, 643n Rhim, Jong-Chul, 762n Rice, Edward M., 691n Ritchken, P., 478n Ritter, Jay R., 25n, 350n, 357, 582n, 681, 681n, 683n, 688n Roberts, Gordon S., 746n Robichek, Alexander A., Web Extension 12B Robin, Ashok J., 267n Rodriguez, Ricardo J., 262n Roenfeldt, Rodney L., 622n, 753n, 861n Rogalski, Richard J., 762n Roll, Richard, 262-264, 263n Rosenberg, Barr, 260n Rosenfeld, James, 657n Ross, Marc, 397n Ross, Stephen A., 265, 265n Ruback, Richard S., 624n, 890n, Web Extension 25A Runvan, L. R., 397n Ruth, Mary E., 842n Sankarasubramanian, L., 478n Sarin, A., 542n Sarkar, Salil, 657n Schachter, Barry, 441n Schall, Lawrence D., 734n Schallheim, James S., 715n, 728n, 731n Scharfstein, David S., 834n Schellenger, Michael, 789n Scherr, Frederick, 632n Schipper, Katherine, 686n Scholes, Myron S., 325-330, 619n, 824 Schulman, Craig T., 347n Schultz, Paul, 753n Schwartz, Eduardo, 478n Schwartz, Nelson D., 83n Sefcik, Stephen F., 762n Senchack, Andrew J., 724n Servaes, Henri, 865n Seward, James K., 762n Sharpe, William F., 250n Shastri, Kuldeep, 266n Shaw, Wayne H., 686n Shilling, James D., 647n Shimko, David C., 466n Shin, Hyun-Han, 779, 779n Shleifer, Andrei, 304n, 545n, 884n, 886n Shrieves, Ronald E., 98n, 494n, 527n, 753n Shriver, Keith A., 632n Shukla, Ravi, 267n Shumway, Tyler, 269n Silliere, Ed, 818 Simon, William, 918 Sindelar, Jody L., 683n Singer, Ronald F., 762n Sirmans, C. F., 647n

Skinner, Douglas J., 644n Smit, Han, T. J., 478n Smith, Abbie, 686n Smith, Brooke, 861n Smith, Clifford W., Jr., 582n, 789n, 822n, 842n Smith, David M., 762n Smith, Dolores D., 786n Smith, Donald J., 832n Smith, Michael L., Web Extension 23A Smith, Stephanie A. M., 782n Smithson, Charles W., 842n Soenen, Luc, 779, 779n Solt, Michael E., 753n Spitzer, Eliot, 83-84 Springsteel, Ian, 744 Stanley, M. T., 396n Statman, Meir, 231n Stein, Jeremy, 834n Stephens, Clifford, 654n Stern, Joel, 103n Stewart, G. Bennett, 98n, 103n, 104n, 536n Stewart, Thomas A., 536 Stone, Bernell K., 786n Stulz, René, 304n, 478n, 488n, 661n, 688n, 800n, 822n, 884n Subrahmanyam, Avanidhar, 272n Summers, Bruce J., 786n Taggart, Robert A., Jr., 587n, 701n Talmor, Eli, 643n Tamarkin, Maurry, 587n Tashjian, Elizabeth, 865n Tate, Geoffrey A., 272, 272n, 547n Taylor, Richard W., 166n, 207n Teach, Edward, 836 Thaler, Richard H., 270n, 271, 271n, 303n, 304n, 646n Thatcher, Janet S., 703n Thatcher, John G., 703n Thibodeaux, Verne L., 919n Thompson, G. Rodney, 755n Timme, Stephen G., 354n, 936n Titman, Sheridan, 270n, 303n, 643n Trigeorgis, Lenos, 446n, 478n Tse, K. S. Maurice, 166n Tsui, Kai-Chong, 952n Tucker, Alan L., 832n Turner, Ted, 188, 914 Tversky, Amos, 271 Vaidyanathan, R., 780 Van Drunen, Leonard D., 688n Van Hoose, David D., 938n Venkataraman, Subu, 929 Vetsuypens, Michael R., 683n Vijh, Anand M, 478n, 686n Vinson, Steve R., 350n, 842n Vishny, Robert W., 545n, 884n, 886n Wakeman, Lee Macdonald, 842n Wald, J., 540n Wansley, James W., 647n, 657n, 915n Warther, Vincent A., 269n Watts, R., 646n Weaver, Samuel C., 397n, 441n, 890n Weigand, Robert, 646n

Weisbach, Michael S., 654n, 919n Weiss, Lawrence A., 861n Wessels, David, 98n, 536n Weston, J. Fred, 266n, 858n, 905n Wheat, Alynda, 83n White, I. T., 782n White, Mark A., 166n Wilbricht, Lisa, 585n, 632n Williams, C. Arthur, Jr., *Web Extension* 23AWilliams, George O., 703n

Williamson, Rohan, 800n Winger, Bernard J., 746n, 890n Winston, Wayne, *Web Extension 13B* Wolf, Avner, 840n Wolf, Timothy, 377 Wood, John C., 786n Woods, John C., 397n Woolridge, J. Randall, 647n Wruck, Karen H., 918n Wurgler, Jeffrey, 582n, 584n Wyatt, Steve B., 789n, 952n Xu, Yexiao, 215n

Yang, Ho C., 915n Yermack, David, 543n Young, Peter C., *Web Extension 23A*

Zhao, Quanshui, 357 Zingales, Luigi, 584, 956–957 Zumwalt, J. Kenton, 285n

subject index

A. H. Robbins Dalkon Shield case, 871 AAA bonds, 179 AA bonds, 179 Abandonment options, 445 illustration of, Web Extension 13A ABB, 929 Abbott Laboratories, 284-285 Abnormal yield curve, 188 Absolute priority doctrine, 861 Accelerated methods depreciation, 427 Acceleration of claims, 858 Accounting beta method, 363 Accounting cost, EVA (economic value added) and, 104 Accounting profit, 100, 112 Accounting rate of return (AAR), Web Extension 11A Accounts payable, 794–797 cost, determining, 796 costly trade credit, 797 free trade credit, 797 stretching accounts payable, 796–797 Accounts receivable. See also Receivables management days sales outstanding (DSO), 127-128 financing, Web Extension 22A in percent of sales forecasting, 499 Accounts receivables collection period, 776–780 Accredited investors, 675 Accrual accounting, 87n Accruals, 794 Accumulation of receivables, 791 Acid test radio, 126 Acquiring company, 887–888 ACRS (Accelerated Cost Recovery System), 427 Activity-based budgeting, 486 Actual rate of return of common stock, 286 Additional funds needed (AFN) formula. See AFN (additional funds needed) formula Adelphia Communications, 11 bankruptcy of, 189 Adjustable rate preferred stocks (ARPs), 746-747 Adjusted betas, 260-261, 351 Adjustment bureau, 855 Adolph Coors, 377 Adverse event risk, 835-836 AFN (additional funds needed) formula, 491-493 financing feedbacks, Web Extension 14Amodel inputs, 503

percent of sales approach compared, 493-494 After-tax cash flows, 107, 113 After-tax cost of debt, 724 After-tax yield of preferred stock, 744 After-the-fact rate of return of common stock, 286 Agency costs bankruptcy and, 567 and bankruptcy reorganization, 865 convertible securities and, 760-762 debt financing and, 581 Agency theory, 7 Aging schedules, 792-793 Airbus, 714 Air Canada, 851 Aircastle Limited, 674, 683 Airline industry bankruptcy in, 851 leasing, 714, 732-733 Air Partners, 851 AirTouch, 886, 888 Alaska Air. 135 Alcan Aluminum, 952 Alcoa commodity price exposure, reducing, 844 zero coupon bonds, 159 All-cash offers, 888 Alternative minimum tax (AMT), 107n lease financing and, 731-732 options and, 329 Amazon.com beta coefficient for, 223 convertible bonds from, 742 valuation of, 474 American Airlines, 714 American Association of Individual Investors (AAII), 144-145 American Depository Receipts (ADRs), 952 American Express, 20 as holding company, 920 American Finance Association, 617 American options, 314 put-call parity relationship, 331n American Stock Exchange (AMEX), 23 IPOs (initial public offerings) and, 683-684 Ameritech, 886 Amortization. See also Amortized loans; Lease financing schedule, 69-70, 73 Amortized loans, 69-70, 73 illustration of, Web Extension 2C Anaconda Copper, 953 Angels, 676

Annual compounding, 64 Annual Percentage Rate (APR), 65 Annual reports, 84–85, 112 Annual Statement Studies, 142 Annuities, 50–51, 72–73. See also Annuities due; Ordinary annuities cash flows from. 60 derivation of formulas, Web Extension 2Afuture value, solving for, Web Extension 2C growing annuities, 70–72 interest rate (I), finding, 58 number of periods (N), finding, 57 payment (PMT), finding, 57 perpetuities, 58-59 Annuities due, 50-51, 72 future values (FVs) of, 53-54 present values (PVs) of, 55-56, Web Extension 2C tabular approach, Web Extension 2C Antitrust issues. See also Mergers and risk, 836 AOL (America Online), 885, 886, 887 impairment test, 905 on New York Stock Exchange (NYSE), 27 Time Warner merger, 88n, 883 valuation of, 474 Aon Corp., 840 Apex Corporation, 109–110 Apple Computers, 4 in computer hardware industry, 142 import quotas and, 960 nano and cannibalization effect, 425-426 stock market and, 280 Appreciation of currency, 939 APV (adjusted present value) approach, 891-894 illustration of, 899-900 Arbitrage currency traders, 936 defined, 609n illustration of, 613-617 and mergers, 914 with Miller model, 618 in MM model, 607-608 personal taxes, Miller model with, 617-620 programmed trading, 327n proof, 609–611 risk arbitrage, 914 with short sales, 611-612 Arbitrage pricing theory (APT), 264-267 factor analysis for, 267 Arca, 26

Archer Daniels Midland, 844 Archipelago, 24 Armor All, 687 Arrearages, 743 Arthur Andersen, 9, 826 accounting fraud, 99 fraud, 106 and synthetic leases, 717 Asia/Pacific region, 436 Ask quotes, 284-285 Asset-backed securities, 705-706 Asset-based financing, 804n Asset management ratios, 126-128 days sales outstanding (DSO), 127-128 fixed assets turnover ratio, 128 inventory turnover ratio, 126-127 total assets turnover ratio, 128 Assets. See also ROA (return on assets) balance sheets listing, 86-87 capital assets, 111, 113 excess capacity adjustments, 507-508 liquid assets, 123 lumpy assets, 506-507 mergers and replacement of, 884 retained earnings and, 90 securitization, 705-706 Assets-in-place, 519 Assignment process, 856-857 Asymmetric information, 567, 579 capital structure decisions and, 585 distribution policy and, 660-661 maturity structure and, 695 trade-off theory combined with, 631-632 AT&T DRIPs (dividend reinvestment plans), use of, 664-665 MediaOne Group merger, 887 private placement sale, 689 warrants from, 749, 749n Attainable portfolios, 242-245 Auctions and bankruptcy, 872 NYSE as auction market, 26 outcry auctions, 23 Automatic stay provision, 859 Aventis SA, 886 Average collection period (ACP), 127-128,792 Average debt ratios, 564-566 Average-risk stock, 220 Average tax rate, 107 Baidu.com. 676, 681 Bait and switch convertible securities and, 760-761 risky assets, investing borrowed funds in. 628 Balance sheets, 85-88, 112 assets, 86-87 equity on, 87-88 example, 124 financing feedbacks, Web Extension 14Alease financing and, 719-720 liabilities in, 87–88 at liquidation, 869 off-balance sheet financing, 719

percent of sales forecasting and, 498-501 Banker's acceptances, 16 for international credit management, 959 Bank of America, 19 mega-grants from, 313 Bankruptcy, 189–190, 851–852. See also Chapter 11 bankruptcy absolute priority doctrine, 861 actions on, 629n agency costs and, 567 automatic stay provision, 859 bond values and, 171 Chapter 7 bankruptcy, 190, 857, 867-871 classes of creditors, 860 costs, 582-583, 585 court, role of, 861 cramdown, 860 criticisms of laws, 872 debt and, 566 European laws, 858n feasibility requirements, 861-862 in illustration, 862-865 federal law, 857-858 financial forecasts and, 871 fraudulent conveyance statutes, 859 free cash flows (FCFs) and, 567 holdout problem, 859-860 illustration of reorganization, 862-865 judicial protectionism and, 872 largest bankruptcies since 1980, 853 leveraged buyouts (LBOs) and, 581 liquidation in bankruptcy balance sheet for, 869 distribution of proceeds, 870 priority of claims, 868 MM model and costs of, 578 motivations for, 871 of pension plans, 37 prepackaged bankruptcies, 865-866 relative priority doctrine, 861 risk management and, 821 SEC (Securities and Exchange Commission) and, 862n short-term financing and, 801 signaling theory and, 580 sinking funds and, 161 stock option compensation and, 542 threat, costs of, 578 time and expense considerations, 866-867 voluntary/involuntary bankruptcy, 857-858 yield curve and, 188 Bankruptcy Act, 190 Bankruptcy Trustee, 866 Banks, 19–22. See also Investment banks cash holdings and, 781-782, 785 check-clearing process, 787 commercial banks, 19-20 and informal reorganization, 855-856 lines of credit, 802, 803 liquidation in bankruptcy and, 868n mutual savings banks, 20 prepackaged bankruptcies, 865-866 revolving credit agreements, 802-803

swaps, counterparties in, 843 transfers through, 13 Barings Bank, 824 Base-case situation net present value (NPV), 432-433 for sensitivity analysis, 432-433 BASF, 931 Basic earning power (BEP) ratio, 132-133 BB bonds, 180 Bear Sterns Cos., 674 Behavioral finance, 231, 270-272 Behavior of managers, 537–538 Bell Atlantic, 886 Below coupon rate bonds, 170 Benchmarking, 141–143 Berkshire Hathaway, 2, 156-157 corporate strategy, 517 Best Buy, 774 quarterly earnings forecasts, 122 Best-case scenarios, 434 Beta coefficients, 219-220. See also MM model accounting beta method, 363 adjusted betas, 260-261, 351 advanced issues, 260-261 calculating, 223-225 CAPM (Capital Asset Pricing Model) and, 350-351 changes in, 230 Fama-French three-factor model and, 268 financial calculator, finding with, Web Extension 6B fundamental betas, 260 historical betas, 260-261, 350-351 individual stock betas, 220 key points related to, 222 market model and, 257-258 measurement techniques, 363 portfolio betas, 220-222, 258-259 pure play method, 363 regression analysis, 223, 257 Security Market Line (SML) and, 227 for single stock, 255–257 stability, tests of, 262 summary of data for, 255 unlevered beta, 587 Beta risk, 216n Bhopal disaster, 920n Bid price. See Mergers Bid quotes, 284-285 Bigger fool theory, 287n Big Mac test, 946 Binomial approach, 320–325, Web Extension 9A steps in, 321-322 Binomial lattice, 324 Bird-in-the-hand theory, 642 Black Scholes Option Pricing Model (OPM), 325-330 abandonment options, valuing, Web Extension 13A and derivatives market, 823 equity valuation with, 626-627 of growth option illustration, 471, 473-476 illustration of, 327-330

Black Scholes Option Pricing Model (OPM) (continued) for investment timing option illustration, 463-468 for real options, 477-478 warrants, value of call option for, 749 Block ownership and corporate governance, 545 Bloomberg, 92, 174 bond interest rates, 186 cross rates in, 935 exchange rates, 933 stock reporting, 284 Blowout bids, 888 Blue Sky laws, 675n BMW, 930 Boards of directors, 539-540 directors' insurance, 912n interlocking boards of directors, 540 Boeing, 714 income taxes, 107n Bombardier Inc., 818 Bombay Stock Exchange (BSE), 951 Bond indentures, 659 Bonding the cash flow, 581 Bondpage.com, 163 Bond ratings, 179-181 bases for, 180 criteria for, 181 default risk premium (DRP) and, 181-183 Bonds, 156. See also Convertible securities; Corporate bonds; Junk bonds; Municipal bonds; Preferred stocks; Premium bonds; Refunding decisions; Treasury bonds Bowie Bonds, 706 British bonds, 58-59 CMOs (collateralized mortgage obligations), 832 coupon interest rate, 158-159 current yield, 169 debentures, 178 default risk premium (DRP), 177-183 determinants of market rates, 174 development bonds, 179 discount bonds, 166 duration, Web Extension 5C Eurobonds, 950-951 financial futures as, 837 floating-rate bonds, 159 immunization of portfolios, Web Extension 5C income bonds, 162 indentures, 178 indexed bonds, 162 interest rate parity, 943-945 interest rate risk, 183-184 international markets, 950-951 issuance of, 157-158 liquidity premiums (LPs), 183 make-whole call provision, 161 markets, 163 capital structure and, 585 maturity date, 160 maturity risk premium (MRP), 183-186 mortgage bonds, 178, 705-706

negative interest rate bonds, 156-157 par value of, 158 in financial statement forecasting, 501 poison puts, 161 real risk-free rate of interest, r*, 174, 175 redeemable at par, 161 reinvestment rate risk, 184-186 risk, Web Extension 5C with semiannual coupons, 173 sinking funds for, 131n, 161-162 solving for bond price, 164-166 step-up provisions, 159 term structure of interest rates, 186-188 time, changes in value over, 169-172 Treasury bonds, 17 valuation, 163-167 with warrants, 156-157, 162 Yankee bonds, 950 yields, 167-169 curve, 186-188 vield to call (YTC), 168-169 yield to maturity (YTM), 167-168 Bond spreads, 181–182 Bond-yield-plus-risk-premium approach, 346, 355-356 comparison of methods, 355-356 Boo.com, 474 Book-building, 680-681 Book-to-market (B/M) ratio, 268 Book values, 86, 366 Borrowing costs, 821 Bowie Bonds, 706 Branch of decision trees, 442-443 Break-even analysis NPV break-even analysis, 432-433 operating break-even point, 571 Break point, Web Extension 11B Breakup value of companies, 885 Bretton Woods fixed exchange rate system, 938 Brightpoint, 774 British Airways, 714 on New York Stock Exchange (NYSE), 952 Brokerage firms, 83 departments, 26 stock splits and commissions, 663 Budgeting. See also Capital budgeting activity-based budgeting, 486 cash budget, 782-786 cost of money and deficits/surpluses, demand-pull budgeting, 486 Bull market, 280 Business activity capital budgeting practices, 396-397 cost of money and, 16-17 inflation and, 18 interest rates and, 18 Business failure. See Financial distress Business partner risk, 836 Business Week, 915 Bylaws, 6

Cadence Design Systems, 457 Calculators. See Financial calculators Callable bonds, 185 Call options, 314 Black Scholes Option Pricing Model (OPM) and, 325-330 exercise value of, 316-320 premiums, 160 provisions, 160 put-call parity relationship, 331 risk-free rate, 319-320 risky debt option, 626-630 term to maturity, 319-320 valuation, 316-320 warrants as, 748 Calpine Corporation, 852 bankruptcy of, 853 Cancellation clauses in operating leases, 715 Cannibalization effect, 425 Capacity excess capacity adjustments, 507-508 in percent of sales forecasting, 499 Capital. See also Cost of capital allocation, overview of, 12-13 alternative sources of, 659-660 value-based management and, 531-535 Capital assets, 111, 113 Capital budgeting, 377–378. See also IRR (internal rate of return); Net present value (NPV); Real options in Asia/Pacific region, 436 in business practices, 396-397 conclusions about, 394-396 decision trees, 441-444 depreciation and, 426-429 distribution decision and, 660 Home Depot Inc. and, 415 incorporating project risk into, 441 inflation, adjusting for, 429-431 MIRR (modified internal rate of return), 389-390 by multinational corporations, 952-956 for new expansion project, 418-423 optimal capital budget, 401-402, Web Extension 11B overview of, 378-380 payback periods, 391-393 profitability index (PI), 391 rationing of capital, 401-402 risky options and, 627-629 Capital gains, 113 corporate capital gains, tax on, 109 individuals, taxation of, 111 long-term gains, 111, 113 in tax preference theory, 642-643 Capital gains yield, 171 of common stock, 286 Capital intensity ratio, 493 Capital leases, 715-716, 719-720 Capital losses, 111, 113 Capital Market Line (CML), 250-254 Capital markets, 22, 949–952 securities, 14 Capital rationing, 401–402 Capital structure. See also Arbitrage; Mergers; Target capital structure analyzing decision results, 595-597

corporate governance and, 543 corporate valuation and, 608 and cost of debt, r_d, 586 and cost of equity, r_s, 586–588 debt financing, 581 decision, 565 defined, 565 distribution decision and, 660 empirical evidence on, 582-584 excess cash flows, reducing, 581 global capital structures, 584 international capital structures, 956-958 investment opportunity set and, 582 Modigliani-Miller theory, 575–580 optimal capital structure, estimating, 586-597 option pricing and, 333-334 pecking order hypothesis, 580 preview of issues, 565-567 projecting debt/interest expenses, Web Extension 25A reverse borrowing capacity, 580 shareholder wealth, estimating, 590-595 signaling theory, 579-580 stock price, estimating, 590-595 tax benefit considerations, 584-585 theories of, 574-582 trade-off theory, 578-579, 630-631 valuation of firm and, 589-590 WACC (weighted average cost of capital) and, 361, 588-589 windows of opportunity theory, 582 CAPM (Capital Asset Pricing Model), 217, 231–232, 346. See also Security Market Line (SML) basic assumptions of, 249-250 beta, estimating, 350-351 comparison of methods, 355-356 and cost of common stock, r_s, 346-352 current status of, 264 empirical tests of, 262-264 as ex ante model, 223 excess returns, 303n Fama-French three-factor model and, 267-268 forward-looking risk premiums and, 348-350 illustration of, 351-352 insights of, 259-260 for Magellan Fund, 258 market model compared, 257-258 market risk premium for, 365-366 merger valuation and, 896 risk analysis points, 222 risk-free rate, estimating, 347 slope of SML, tests based on, 262-264 Carrybacks, 109-110, 113 capital structure decisions and, 584-585 Carryforwards, 109–110, 113 capital structure decisions and, 584-585 Carve-outs divestitures and, 918-919 equity carve-outs, 686-687

Cash. See also Cash management budget, 782-786 dividends affecting, 659 position, 93-94 retained earnings account report, 90–91n Cash conversion cycle (CCC), 776-780 benefits of, 778-780 multinational corporations and, 959 shortening, 778 Cash dividends. See Dividends Cash flow estimation, 415-418 in new expansion project, 418-423 Cash flows. See also Arbitrage; Depreciation; Net cash flow; Uneven cash flows (CF_t) bonding the cash flow, 581 and bond valuation, 163 capital budgeting and, 379 cash budgeting and, 783 certainty equivalent approach, 441 defined, 39 excess cash flows, reducing, 581 incremental cash flow, 417 inflation adjustment and, 429-430 interest expenses and, 424 inventory management and, 788-789 IRR (internal rate of return) and, 387-388 lease financing and, 723 maximization of value and, 11-12 MM model and, 575-576 multinational corporations, estimation by, 953-954 post-merger cash flows, 897-898 price/cash flow ratio, 134 project financing and, 704 risky cash outflows, Web Extension 12B statement of, 93-95 in swaps, 829-831 synchronizing cash flow, 786-787 on time lines, 38-39 timing of, 426 unequal lives, projects with, 397-399 Cash management, 781–782 cash budget, 782-786 check-clearing process, 787 commercial paper, 803-804 float and, 787 lockbox plan, 787–788 marketable securities, 799-800 maturity matching, 800 by multinational corporations, 958 receipts, speeding up, 787-788 ROCE (return on capital employed), 785 short-term financing, 800-803 speculative balances, 800 synchronizing cash flow, 786-787 target cash balance, 783 Web chapter on advanced issues, Web Chapter 28 CBS, 189 C corporations, 111 Celanese, 676 Celler Act of 1950, 882n

Central African Economic and Monetary Community (CAEMC), 941 CEOs and board of directors, 539-540 compensation of, 540, 541-542 media and, 546-547 superstar CEOs, 547 Certainty equivalent (CE) method, 441, Web Extension 12B Certificates of deposit (CDs) financial futures as, 837 opportunity cost, 46 CFO magazine, 774 cash management scorecard, 785 CFOs and board of directors, 539 and synthetic leases, 717 Chapter 7 bankruptcy, 190, 857, 867-871 Chapter 11 bankruptcy, 857, 859 features of, 860-861 illustration of, 862-865 Charters, 6 hostile takeovers and, 540-541 shareholder-friendly charters, 541 Chartists, 302, 302n Chateau Teyssier, 182 Check-clearing process, 787 ChevronTexaco, 884 Chicago Board of Trade (CBOT), 23, 823 futures on, 837 Chicago Board Options Exchange (CBOE), 314 Chicago Mercantile Exchange (CME) futures on, 837 weather derivatives, 818 Chicago Rivet and Machine Co., 889 China, exchange rates in, 937 Ciena, 300n, 301n Cintas Corp., 674 Cisco Systems, 223 Citibank, 22 Cities Service, 159 Citigroup, 20, 21-22, 674 in foreign markets, 929 mega-grants from, 313 quarterly earnings forecasts, 122 Class A/Class B stock, 282-283 Classes of stock in corporate valuation model, 525-526 voting rights and, 283 Classified stock, 282-283 Class life, 427 Clayton Act of 1914, 882n Cleanup clauses, 803 Clientele effect, 645-646 Closely held stock, 281 CMOs (collateralized mortgage obligations), 832-833, Web Extension 1A **CNN** Financial bond interest rates, 186 junk bond financing, 188 Coca-Cola beta coefficient for, 223 corporate scope, 488 foreign earnings, taxes on, 110 on international stock exchanges, 952 MVA (market value added), 103-104

Coca-Cola (continued) 100-year bonds, 160n quarterly earnings forecasts, 122 Coefficient of variation (CV), 209-210 Colgate-Palmolive, 929 Collateral maturity structure and, 695 for short-term financing, 804 Collection policy, 790 Combination leases, 716 Comcast, 689 Comfort letters, 703-704 Commercial banks, 19-20 Commercial loans, 16 Commercial paper, 16, 803-804 market, 705 Commodities contracts, 828 Commodity futures, 837. See also Derivatives Commodity price exposure, 843-844 Common equity, 87 Common life approach, 397–398 Common pool problem, 858-859 Common size analysis, 137-140 Common stocks, 17. See also Constant growth stocks; Convertible securities; Dividends; Preferred stocks; Stock price; Stock valuation on balance sheets, 87–88 block ownership of, 545 classified stock, 282-283 convertible bonds, 162 cost of common stock, r_s , 345–346 expected dividends, 286-287 and mergers, 912 nonconstant growth rate stocks, valuing, 293–297 in percent of sales forecasting, 501 preemptive rights, 282 rights and privileges of stockholders, 281-282 styles of, 282-284 Company-specific risk, 216n Compaq Computer, 844 Comparative ratios, 141–143 Compensating balances, 781–782 and short-term loans, 802 Compensation. See also Wages aligning managerial/shareholder interests with, 541-543 of board members, 540 as carrot, 538-539 of CEOs, 541-542 ESOPs as. 550 fraud and option-based compensation, 542n in mergers, 887 risk management and, 822 stock option compensation plans, 542 Competition corporate governance and, 545-546 and electricity trading, 827 financial analysis and, 145 risk, 836 in secondary markets, 28-29 Competitive bids, 688 Component cost, 341-342 of convertible securities, 755-759

of preferred stock, rps, 344-345 warrants, bonds with, 752-753 Composition of creditors, 855-856 Compounding, 39, 44, 72 annual compounding, 64 continuous compounding, 67; Web Extension 2B fractional time periods, 68 frequent compounding, 67 graphic view of, 45 semiannual compounding, 64 Comprehensive income, 90n Computers hardware industry, 142 networks, 23 Condec Corporation, 686-687 Cone Mills, 844 Congeneric mergers, 885 Conglomerates average debt ratios, 564 mergers, 885 Congress. See Laws and regulations Congressional Budget Office, 176n Conseco, 189, 853 Consistent debt, projecting, Web Extension 25A Consolidated corporate tax returns, 110 Consols, 58-59 Consortia, 916n Constant growth model, 288 uses of, 291 Constant growth stocks, 287-291 earnings per share (EPS) and, 289–291 expected rate of return on, 291-293 flotation costs and, 356-357 illustration of, 288-289 long-term/short-term events and, 290-291 values of, Web Extension 8A Consumer credit loans, 16 markets, 22 nominal rate on, 65 Consumer/noncyclical companies, 564 **Continental Airlines** bankruptcy, 851 financial forecasts and bankruptcy, 871 Continental Illinois, 747 Continuing value, 524 Continuous compounding, 67, Web Extension 2B Continuous probability distributions, 206, Web Extension 6A Control dividends and, 660 going public and, 677-678 by holding companies, 920 internal control systems, 543 Conversion price, P_c, 754–755 Conversion ratio, CR, 754-755 Conversion value, Ct, 757 Convertible currencies, 940-941 Convertible securities, 162, 742. See also Warrants agency costs and, 760–762 bait and switch and, 760-761 calling, Web Extension 21A comparison of warrants to, 762-763

component cost of, 755-759 conversion price, P_c, 754–755 conversion ratio, CR, 754-755 conversion value, Ct, 757 defined, 754 in financing, 759-760 floor price, 757 outstanding convertibles, reporting earnings with, 763 return from, 758 Coors Molson Brewing Company, 377 Copeland, Koller, and Murrin study, 536 Corning Incorporated joint ventures by, 916 mandatory convertible-preferred stock, 744-745 Corporate alliances, 916-917 Corporate bonds, 17, 157 call provisions, 160 liquidity premiums (LPs), 183 spreads, 182 Corporate governance, 7, 518, 538–547. See also Boards of directors; Compensation block ownership patterns and, 545 capital structure and, 543 competition and, 546 ESOPs (employee stock ownership plans), 548-551 hostile takeovers, 540-541 improvements in, 540 internal control systems and, 543 international corporate governance, 546 laws and regulations affecting, 544-545 media and, 546-547 protection of management, 540n Sarbanes-Oxley Act of 2002 and, 543, 544 Corporate raiders, 888-889 parking stock, 912 Corporate risk management, 834-837 for individual projects, 363 process of, 835-837 Corporate taxation, 107-110. See also MM model capital gains, 109 consolidated returns, 110 improper accumulation provisions, 110 interest income, 107-109 loss carryback/carryforward, 109-110 marginal tax rate, 343n MM model and, 576-577, 608-609 overseas income, taxes on, 110 Corporate valuation. See also capital structure; Corporate governance; Corporate valuation model; Valuebased management capital structure and, 589-590, 608 and distributions, 641 dividend growth model for, 526 dividends and, 518 overview of, 518-519 wealth, 537-538

Customers

Corporate valuation model, 518, 519-527 classes of investors, claims of, 525-526 dividend growth model compared, 526-527 dividends in, 526 EROIC (expected return on invested capital), 533 for mergers, 890, 897–899 operations, estimating value of, 520-524 price per share, estimating, 524-526 recapitalization and, 594 repurchases, effect of, 654-655 Corporations, 5–7. See also Corporate governance; Corporate taxation; Corporate valuation; Multinational corporations; S corporations growing, 7 insurance programs, Web Extension 23Aas legal entities, 6 life cycle, 4–7 purpose statement, 487 scope of, 488 strategies, 488 Correlation, 213 coefficient, 213 rates of return and, 214, 215 Corruption rankings, 953, 954 Cost/benefit analysis, 836-837 Costly trade credit, 797 Cost of capital, 340-341. See also MM model; WACC (weighted average cost of capital) in Asia/Pacific region, 436 cost of common stock, r_s, 345–346 cost of debt, r_d(1-T), 342-344 cost of preferred stock, r_{ps} , 344–345 divisional cost of capital, 361–362 economic conditions affecting, 15-19 equation, 341 factors affecting, 15 in foreign markets, 17-18, 359 global variations in, 359 hurdle rate, 383 for individual projects, 363-364 inflation premium in, 430 investors, components from, 366 mistakes in estimating, 365–366 net present value (NPV) rankings and, risk, adjustment for, 15, 361-364 for small businesses, 364-365 value of operations and, 521-523 Cost of common stock, r_e, 345–346 bond-yield-plus-risk-premium approach, 355 CAPM (Capital Asset Pricing Model) approach, 346-352 discounted cash flow (DCF) approach, 352-355 Cost of debt, r_d, 342–344 capital structure and, 586 Cost of equity, rs, 14 capital structure and, 586-588 in nonconstant dividend growth model, Web Extension 10B Cost of new common equity, re, 356-357

Cost of preferred stock, rps, 344-345 Counterparties, 823 in foreign exchange contracts, 828 in swaps, 843 Country risk, 18-19 Coupon payments, 158-159 Coupon rate, 837n cost of capital and, 365 falling below bonds, 170 interest rate risk and, 183-184 Coursework, 4 Covariance between stock i and the market, 219-220 Covered options, 314 Cramdown, 860 Creditors. See also Bankruptcy and informal reorganization, 855-856 liquidation in bankruptcy, 867-871 prepackaged bankruptcies, 865-866 Credit policy, 790-791. See also Receivables management Web chapter on providing and obtaining, Web Chapter 28 Credit Suisse First Boston, 19, 83, 84, 686 Credit unions, 20 Cricket cellular phone service, 674 Cross-border mergers, 887 Cross-default provisions, 858 Cross-licensing, 916n Cross rates, 934-936 Culture and multinational corporations, 932 Cumulative issues, 743 Cumulative voting, 281n Currencies. See also Exchange rates appreciation, 939 call options, 333 cross rates, 934-936 demand for, 936-937 depreciation, 939 devaluation of, 940 Eurocurrencies, 949 financial futures as, 837 financial management and, 932 futures, 844-845 governments supporting, 937 hard currencies, 941 indirect quotations, 933-934 inflation and, 937, 948 interest rate parity, 943-945 multinational corporations and, 932 no local currencies, 941 purchasing power parity (PPP), 945-948 repatriation of, 953-954 revaluation of, 940 soft currencies, 941 swaps, 831 Currency board arrangements, 941n Current assets, 125 Current Economics Projections, 176n Current liabilities current ratio, 125 in percent of sales forecasting, 500-501 Current ratio, 125 Current risk premium, 365-366 Current yield, 169

liquidation in bankruptcy and, 868 and risk, 836 Daily Planet Ltd., 25 DaimlerChrysler, 10, 887 federal aid to, 853 marketable securities, 799-800 voluntary settlement by, 856 Dalkon Shield case, 871 Dana Corporation, 852 Dart & Kraft, 842 DAX market, 951 Days sales outstanding (DSO), 127-128, 791-793 Days tied up in working capital (DWC), 774 Dealer markets, 24 Debentures, 178 Debt. See also Maturity structure; Refunding decisions cost of debt, r_d, 342–344, 586 flotation costs for, 357 instruments, 14 leveraged buyouts (LBOs), 581 project financing, 703–705 projecting consistent debt, Web Extension 25A recapitalization, 590-595 residual distribution model and, 648-649 risk structure, managing, 703-706 risky debt option, 626-630 securitization, 705-706 trade-off theory, 578-579 Debt financing, 660 going private and, 693 Debt management ratios, 129–131 debt ratio, 129 EBITDA coverage ratio, 130-131 times-interest-earned (TIE) ratio, 130 Debtor-in-possession (DIP) financing, 860 Debt-to-assets (D/A) ratio, 129n Debt-to-equity (D/E) ratio, 129n Decision notes, 442-443 Decision trees, 441-444 for abandonment option, Web Extension 13A basic decision trees, 442-443 of growth option illustration, 471-472 for investment timing option illustration, 461-463, 464 for real options, 476–477 Declaration date dividends, 652 Deductibility of interest, 577 Default risk on bonds, 157 Default risk premium (DRP), 177-183 bond ratings and, 181-183 contract provisions influencing, 178-179 Defense Department, 853 Deferred annuities. See Ordinary annuities Deferred call, 160 Defined benefit plans, 37 Defined contribution plans, 37

Degree of financial leverage (DFL), Web Extension 16A Degree of operating leverage (DOL), Web Extension 16A Delivery date, Web Extension 1B Dell Computers, 2, 774 beta coefficient for, 223 comparative ratios for, 142 in computer hardware industry, 142 corporate strategy, 517 market/book (M/B) ratio, 135 stock market and, 280 Delta Airlines, 714 bankruptcy of, 189, 851, 852, 853 yield curve for, 188 Demand business risk and, 568 for currency, 936-937 leasing and, 733 Demand-pull budgeting, 486 DEN (Digital Entertainment Network), 474 Depository Trust and Clearing Corporation (DTCC), 28n Depreciation, 87 ACRS (Accelerated Cost Recovery System), 427 capital budgeting and, 426-429 currency depreciation, 939 EVA (economic value added) calculation and, 104 half-year convention, 429 lease financing and, 731-732 MACRS (Modified Accelerated Cost Recovery System), 427-429 net cash flow and, 91-92 for new expansion project, 421 as noncash charge, 424 percent of sales forecasting, 496-497 recovery allowance for personal property, 428-429 straight-line depreciation, 426-427 Deregulation of airline industry, 714 Derivatives, 14. See also Futures commodity price exposure, 843-844 corporate risk management and, 835 downside of, 824 Enron and, 825-827 forward contracts, 827-828 futures contracts, 827–828 history of, 822-823 Long Term Capital Management (LTCM) and, 824-825 misuse of, 844-845 overview of, Web Extension 1B refunding decision and, 703 speculating with, 844 structured notes, 832-833 swaps, 829-832 weather derivatives, 818 DeSoto Chemical, 689 Detachable warrants, 750 Devaluation of currency, 940 Development bonds, 179 Differential efficiency, 882 Dillon Read, 689

Dilution convertible securities and, 755 warrants and, 750-752 Direct method, 466 Directors' insurance, 912n Disbursement float, 787 Disclosure, 677 for operating leases, 721 Discount bonds, 166 Discounted cash flow (DCF), 346, 352-355, 458 abandonment options and, Web Extension 13A comparison of methods, 355-356 estimating growth rates, Web Extension 10A evaluating methods, 354-355 for forward-looking risk premiums, 348-349 in growth option illustration, 470-471 historical growth rates, 352-353 illustration of, 354 inputs, estimating, 352-354 in investment timing option illustration, 460-461 merger valuation, 890-891 net present value (NPV) and, 380 retention growth model, 353 Discounted payback, 379, 393 evaluating approach, 393-394 risk and liquidity indications, 395 Discounts/discounting, 46, 790 continuous discounting, Web Extension 2B in foreign exchanges, 942-943 fractional time periods, 68 graphic view of, 47-48 and lease financing, 724n risk-adjusted discount rate method, Web Extension 12B Dissolution by holding companies, 921 Distributions, 640-645. See also Residual distribution model asymmetric information and, 660-661 bird-in-the-hand theory, 642 clientele effect, 645-646 constraints on, 659 corporate valuation and, 641 dividend irrelevance theory, 641-642 empirical evidence and, 643-645 investment opportunities and, 661 optimal distribution policy, 641 overview of policies, 660-661 policy, 640 target distribution ratio, 640 target payout ratio, 640 Distribution systems risk, 836 Diversifiable risk, 215–219 Diversification in foreign markets, 931 and mergers, 884 overseas diversification, 218 portfolio risk and, 215 Diversity and foreign markets, 931 Divestitures, 882, 918-919

Dividend growth model for corporate valuation, 526 corporate valuation model compared, 526-527 free cash flow to equity (FCFE) approach and, 895 Dividend irrelevance theory, 641–642 Dividend reinvestment plans (DRIPs), 664-665 Dividends, 6. See also Constant growth stocks; Distributions; Earnings per share (EPS); Preferred stocks advantages of, 658 bird-in-the-hand theory, 642 cash position and, 93-94 clientele effect, 645-646 common stock valuation and, 285-287 constraints on, 659 control and, 660 corporate income tax on, 107-109 declaration date dividends, 652 disadvantages of, 657-658 dividend irrelevance theory, 641-642 DRIPs (dividend reinvestment plans), use of, 664–665 empirical evidence and, 643-645 excess cash flows, reducing, 581 ex-dividend date dividends, 652-653 expected dividends, 286-287 holder-of-record date dividends, 652 impairment of capital rule, 659 improper accumulation provisions, 110 information content and, 646-647 life-cycle theory and, 661 low-regular-dividend-plus-extras policy, 651-652 Microsoft dividends, 639 of multinational corporations, 953 nonconstant growth rate stocks, 293-297 cost of equity in, Web Extension 10B payment date dividends, 653 payment-in-kind (PIK) dividends, 744 payment procedures, 652-653 in percent of sales forecasting, 501 personal taxation of, 111, Web Extension 3A quarterly payment of, 285n repurchases compared, 655-659 and residual distribution model, 651-652 signaling content and, 646-647 from special preferred stocks, 745 stability implications, 647 start-up valuation, 518 stock dividends, 662-664 convertible securities and, 755 surtaxes on, 659 taxation, 659 corporate income tax, 107–109 personal taxation, 111, Web Extension 3A tax preference theory, 642-643 WACC (weighted average cost of capital) and, 361 zero growth stocks, 291

Dividend yields, 286 in foreign markets, 644 Divisional cost of capital, 361–362 Dollar terms, 201 Dot-com companies, 474 Double taxation, 6 Douglas Aircraft, 853 Dow Chemical, 929 Dow Jones Industrial Average, 27, 280, 951 on average-risk stock, 220 dividend yields, 644 2005 performance, 31 volatility of, 300 Drexel Burnham Lambert, 705, 887 junk bond purchases, 188-189 mergers, financing, 913-914, 913n DRIPs (dividend reinvestment plans), 664-665 Duke Power, 826-827 Dumping in international markets, 960, 960n Dun & Bradstreet on business failure, 852 comparative ratios and, 142 inventory turnover ratio, 127n DuPont, 921 preferred stock price, 744 Du Pont equation, 140–141 Duration of bonds, Web Extension 5C Earnings. See EBITDA (earnings before interest, taxes, depreciation, and amortization); EBIT (earnings before interest and taxes); Foreign markets; Profit Earnings per share (EPS), 90 of constant growth stocks, 289-291 convertibles, reporting for, 763 and warrants, 752 warrants, reporting for, 763 East Caribbean Currency Union, 941 Eastern Airlines, 872 anatomy of failure, Web Extension 24A EBIT/Average assets, 133n EBITDA (earnings before interest, taxes, depreciation, and amortization), 88 coverage ratio, 130-131 market multiple analysis and, 297 EBIT (earnings before interest and taxes), 96. See also Arbitrage arbitrage and, 607 basic earning power (BEP) ratio, 132-133 calculating, 498 estimating cash flows and, 417 percent of sales forecasting, 496-497 return on capital employed (ROCE) and, 785 times-interest-earned (TIE) ratio and, 130 and warrants, 751-752 Economic life issue, 399–400 Economic value added (EVA). See EVA (economic value added) Economies of scale and forecasting, 505-506 The Economist, 946

Effective annual rate (EFF%), 66, 342n Efficient frontier, 247 Efficient Markets Hypothesis (EMH), 270, 301-305 implications of, 304-305 maturity structure and, 694-695 research on, 303-304 semistrong form of, 302-303 strong form of, 303 weak form of, 302 Efficient portfolios, 242-246 EG&G, 606 Election of board, 539 Electricity trading, 825-827 Electronic communications network (ECNs), 24 Embedded options, 314, 444. See also Real options Embedded rate, 342 EMC Corp., 790 Empire District Electric, 223 Empirical evidence on capital structure, 582-584 and distributions, 643-645 and mergers, 914-916 Employees. See also ESOPs (employee stock ownership plans) ethical employees, protecting, 9 risk, 836 stock price maximization and, 10 Energen Corp., 223 Energy companies. See Utility companies England. See Great Britain Enron, 8, 9, 11 accounting fraud, 99 bankruptcy of, 189, 853 bond rating and, 183 corporate valuation and, 537 derivatives misuse, 824, 825-827 expropriation problem, 953 media and, 546 MIPS, issuance of, 745 ratio analysis and, 144 synthetic leases, 717 Entity multiples, 297 Entrenched management, 538 Environmental externalities, 426 Environmental risk, 836 EOQ model, 505-506 Equilibrium of stock market, 298-301 Equilibrium value of option, 327 Equipment. See also Lease financing depreciation of, 428n Equity, 567. See also Cost of equity, rs; Preferred stocks on balance sheet, 87-88 carve-outs, 686-687 financing, 660 flotation costs for, 357 multiplier, 140 premium, 348 risk premium, 348 with risky coupon debt, 629-630 risky equity option, 626-630 Equivalent annual annuities (EAA) method, 399 ERISA (Employees' Retirement Income Security Act of 1974), 868n

EROIC (expected return on invested capital), 531-535 ESOPs (employee stock ownership plans), 319, 548-551 as merger defense, 913 repurchases for, 654 Ethics, 9 and IPOs (initial public offerings), 685-686 Eurobonds, 950-951 Eurocurrencies, 949 Eurodollars financial futures as, 837 futures, 842 market, 949-950 market time deposits, 16 European Monetary Union, 941 European options, 314 put-call parity relationship, 331n valuation of, 626-627 European Union accounting standards, 131 Euros. See also Currencies; Eurodollars European Monetary Union, 941 indirect quotations for, 933-934 EVA (economic value added), 104-106, 113 compensation plans and, 543 example, 105 MVA (market value added) compared, 106 Event risk, 161 Everest VIT, 340 Ex ante risk premiums, 348-349 Excel. See Spreadsheets Excess cash. See Repurchases Excess returns, 303n Exchange rates, 932–936. See also Derivatives Bretton Woods fixed exchange rate system, 938 cash conversion cycle (CCC) and, 959 and convertible currencies, 940-941 devaluation of currency, 940 floating exchange rates, 939 governments supporting, 937 interest rate parity, 943–945 international monetary system and, 938-941 and international trade, 936-938 and inventory policy, 960 managed floating rates, 939-940 nonconvertible currencies and, 940-941 pegged exchange rates, 940 project analysis and, 955-956 purchasing power parity (PPP), 945-948 revaluation of currency, 940 risk, 19, 30, 939 trading in, 942-943 Exchange traded fund (ETFs), 21, 27, 241 Ex-dividend date, 652-653 Executives. See Management Exercise price, 314 of call options, 316-320 warrants and, 748 Expectations theory, 188

Expected cost of debt, 343n Expected rate of return, 204-205 for bonds, 168 Capital Market Line (CML) and, 253 of common stock, 286 on constant growth stock, 291-293 equilibrium of stock market and, 299 on portfolio, 212-213 in two-asset case, 242-243 Expiration date, 314, 315n binomial approach and, 321 for put options, 330-331 for stock option compensation plans, 542 Expo Design Center, 415 Export credit insurance, 959-960 Export licensing risk, 836 Expropriation of assets, 953, 960 Ex rights, Web Extension 19A Extended Du Pont equation, 141 Extension and reorganization, 855 Externalities environmental externalities, 426 project analysis and, 425-426 ExxonMobil, 886 DRIPs (dividend reinvestment plans), use of, 665 inventory management, 960 raw materials for, 930 true consolidation analysis, 910 Factor analysis for arbitrage pricing theory (APT) parameters, 267 Fairness doctrine in bankruptcy, 861 Fama-French three-factor model, 231, 267-270 size effect and, 269-270 FASB Statement 13, 719-720 FASB Statement 141, 905, 908n Feasibility of reorganization. See Bankruptcy Federal bankruptcy aid, 853 Federal Bankruptcy Reform Act, 868 Chapter 7 bankruptcy, 190, 857, 867-871 Federal Reserve Board of Governors site, 15 bond interest rates, 186 on bonds, 156 check-clearing process, 787 commercial banks and, 20 cost of money and, 15-19 Long Term Capital Management, 21 and Long Term Capital Management (LTCM), 825 margin requirements, 685 swaps, role of banks in, 843n Federal Reserve Economic Data (FRED) site, 14 FedEx, 2 Feedback financing feedbacks, Web Extension 14Alease financing and, 722, Web Extension 20B leasing feedback, Web Extension 20B Fiat Group, 952 Fidelity, 20

FIFO (first-in, first-out), 86-87 Financial Accounting Standards Board (FASB), 131 convertibles, reporting earnings for, 763 lease financing, statement on, 719-720 merger accounting, pooling in, 905, 908n warrants, reporting earnings for, 763 Financial analysis, AAII summary, 144-145 Financial asset markets, 22 Financial calculators bond values, finding, 165 decimal place display, 42 end mode, 42 future values (FVs) and, 41-42 Hewlett-Packard 10BII, Web Extension 6Bfor IRRs, 383 one payment per period, 42 for present values (PVs), 46 tips for setting up, 42 Financial distress. See also Bankruptcy causes of, 852 costs, 582-583, 585 MM and Miller models and, 622 informal liquidation, 856-857 informal reorganization, 854-856 issues of, 854 records of business failure, 852-853 risk management and, 821 Financial economies, 882 Financial engineering in investment timing option illustration, 468-470 risk-neutral valuation, 469-470, Web Extension 13B Financial futures, 837 Financial institutions. See Banks Financial intermediary transfers, 13 Financial leases, 715-716 Financial leverage, 572-574 Financial Management Association, 606 Financial manipulation, 99 Financial markets. See Stock markets Financial options. See Options Financial planning, 486-487 AFN (additional funds needed) formula, 491-493 forecasted financial statement approach, 493-505 operating plans, 488-489 sales forecasts, 489-491 steps in process, 489 strategic plans, 487–488 Financial restructuring, 675 Financial risk, 567-568, 572-574 Financial services corporations, 20 Financial statements, 84-85. See also Balance sheets; Income statements advanced techniques for forecasting, Web Extension 14B employee stock options in, 319 forecasted financial statement approach, 493-505 international accounting differences, 131

lease financing and, 719-721 manipulation of, 99 for mergers, 908-910 pro forma statements, 487 statement of cash flows, 93-95 stock option compensation and, 542 valuation and, 123 Financing. See also Debt financing; Loans convertible securities in, 759-760 debtor-in-possession (DIP) financing, 860 in statement of cash flows, 93-94 warrants, use of, 749-750 Financing feedbacks, Web Extension 14A FINOVA Group, 189 First Chicago Trust on DRIPs, 665 First day of trading, 681-682 First mover advantage, 463 First-tier holding companies, 921 First Union, 882-883, 883n, 888 true consolidation analysis, 910 Fitch Investors Service, 179n Fixed assets/sales (FA/S) ratio, 507 Fixed assets turnover ratio, 128 Fixed exchange rate system, 938 Flexibility airline leasing and, 733 futures market and, 842 options and, 445-446, 842 Flight to quality, 825 Float. See also Refunding decisions cash management and, 787 and secondary markets, 683-684 Floating exchange rates, 939 Floating-rate bonds, 159 Floating-rate notes, 833 Floor price of convertible bond, 757 Flotation costs adjusting cost of stock for, 356-357 and cost of debt, r_d(1-T), 343 cost of new common equity, r_e and, 356-357 Follow-on offerings, 690-691 Fool.com, 92 Ford, 10 low-regular-dividend-plus-extras policy, 651-652 mega-grants from, 313 nonoperating assets, 520 Forecasted financial statement (FFS) approach, 493-505 Forecasting advanced techniques, Web Extension 14B bankruptcy and, 871 and discounted cash flow (DCF), 353-354 economies of scale, 505-506 excess capacity adjustments, 507-508 financing feedbacks, Web Extension 14Aforecasted financial statement approach, 493-505, 502-505 lumpy assets, 506-507 maturity structure and, 694-695 sales forecasts, 489-491 Foreclosure, 858 Foreign bonds, 158

Foreign exchange contracts, 828 Foreign markets, 22. See also Currencies; Multinational corporations airline lease financing, 714 annual returns on stocks, 30 bankruptcy in, 858n business risk and, 569 capital structures in, 584 corporate governance in, 546-547 corporate income taxes on earnings, 110 corruption rankings, 953, 954 cost of capital in, 17-18, 359 cross-border mergers, 887 currency swaps, 831 diversification, 218 dividend yields in, 644 financial analysis and, 144-145 inflation and, 948 joint ventures in, 916 option pricing and, 332-333 risk factors, 18-19 Formula approach future values (FVs), 41 present values (PVs), 46 Fortune on financial manipulation, 99 most admired companies, 2, 10 Forward contracts, 827-828, Web Extension 1B Forward-looking risk premiums, 348-349 Forward price, Web Extension 1B estimation of, Web Extension 5D in foreign exchanges, 942-943 Founders' shares, 283 Fourth markets, Web Extension 1C Fractional time periods, 68 Franchising, 916n Fraud corporate valuation and, 537 financial statements, trust in, 123n option-based compensation and, 542n ratio analysis and, 144 Sarbanes-Oxley Act and, 106 Fraudulent conveyance statutes, 859 Free cash flows (FCF), 11–12, 99–100, 113. See also Distributions in APV (adjusted present value) approach, 891-894 bankruptcy and, 567 calculating, 100-101, 416 capital budgeting and, 378 cash conversion cycle (CCC) and, 778-780 debt affecting, 565-567 of dot-com companies, 474 estimating cash flows and, 416-417 evaluating, 102 free cash flow to equity (FCFE) approach, 890, 894-896 generation of, 640 hostile takeovers and, 540-541 managerial behavior and, 537-538 operations value and, 520-524 stock risk and, 282 stock valuation by, 296-297 uses of, 101 valuation and, 40, 101-102

Free cash flow to equity (FCFE) approach, 890, 894-896 illustration of valuation with, 900-901 Free trade credit, 797 Friendly mergers, 888 FTC (Federal Trade Commission), 882 FTSE market, 951 Fuji Xerox, 930 Fundamental beta, 351 Fundamental stock price, 8, 285–286 Futures, 827-829, 837-845, Web Extension 1B commodity price exposure, 843-844 history of, 822-823 interest rate futures, 828 markets, 22 natural hedges, 823 security price exposure, 840-843 Treasury bond futures, 837-839 Future sales forecasting, 491 Future values (FVs), 39-45, 72 of annuities due, 53-54 comparing procedures for finding, 44-45 defined, 39 financial calculators and, 41-42 formula approach, 41 of ordinary annuities, 51-53 spreadsheets and, 42-44 step-by-step approach, 40-41 tabular approach, 40n, Web Extension 2Cof uneven cash flows (CFt), 62-63 GAAP. 106 Gamblers, 270 Gateway 2000 in computer hardware industry, 142 on New York Stock Exchange (NYSE), 27 GE Capital, 704, 726 Rojacks Food Stores lease, 730 Genentech, 280 General Electric, 2, 929 beta coefficient for, 223, 225, 255-257 cost of capital, 340 fair value, establishing, 913 foreign plants for, 930 income taxes, 107n leasing companies of, 726 MVA (market value added) of, 340 stock return data for, 224 General Motors, 10 Class H stock, 283 in foreign markets, 931 going private, 692 low-regular-dividend-plus-extras policy, 651-652 spin-off by, 919 stock market and, 280 zero coupon bonds, 159 General partners, 5 General Public Utilities, 920 Genetic Concepts, 283 Geographic markets, 445 Georgia-Pacific Corp. going private, 692 tracking stocks, 284

Germany corporate governance in, 546 DAX market, 951 mergers, 887 Gibson Greeting Cards derivatives misuse, 824 leveraged buyout of, 918 Gillette merger, 881 Glaxo Wellcome, 886 Global corporations. See Multinational corporations Global Crossing, 99, 827n bankruptcy of, 189, 853 Going out of business, 855 Going private, 691–693 Going public, 24, 676-678. See also IPOs (initial public offerings) advantages of, 676-677 costs of, 683 disadvantages of, 677-678 investment bank, selection of, 678-679 Golden parachutes, 912 Goldman, Sachs, 19, 674, 689 special preferred stocks from, 745 Goodbody & Company, 853 Goodwill in mergers, 906 Gordon-Lintner argument, 642 Gordon model, 288 Governments currency support, 937 and multinational corporations, 932 GPA Group, 714 Great Britain bonds, 58–59 FTSE market, 951 London SEAQ, 24 London Stock Exchange (LSE), 28-29 pounds, 933 and Bretton Woods fixed exchange rate system, 938 Greenmail, 541 Gross domestic product (GDP), 265 Gross investment in operating capital, 100 Growing annuities, 70–72 for constant real income, 70-71 initial deposits for future income, 71-72 Growth options, 445, 519 illustration, 470-476 Growth rate estimating, Web Extension 10AGTE, 886 Guideline leases, 718 Gulf Oil, 884, 953 junk bond financing and, 189 Hackett Group, 487 Half-year convention, 429 Hamada's equation, 587 MM model and, 613, 616 Hard currencies, 941 Haverty Furniture, 785 Health industry average debt ratios, 564 per-procedure leases, 733-734

Hedge funds, 21 Long Term Capital Management (LTCM), 824-825 Hedging, 840-841. See also Futures commodity price exposure, 843-844 with forward contracts, 828 inverse floaters for, 833 natural hedges, 823, 840-841 oil price risk, 820-821 options creating, 316 perfect hedge, 842 riskless hedge concept, 320 risk management and, 821 types of, 841 Heinz, 223 Herman Miller Inc., 790 Hershey Foods, 606 Hewlett-Packard, 4, 5 in foreign markets, 929 real options, 457 10BII, Web Extension 6B Hindsight bias, 271–272 Historical betas, 260-261, 350-351 Historical rate, 342 Historical ratios, 495 Historical risk premium, 210, 348, 365-366 Historical sales, 489-490 Holder-of-record date dividends, 652 Holding companies, 882, 920-921 in bankruptcy, 859 as leveraging device, 921 Holdout problem, 856, 859-860 in prepackaged bankruptcies, 866 Home Depot, 102 cash flow estimation, 415 EROIC (expected return on invested capital) for, 534 Homemade leverage, 621 Honda Motors, 929 exchange rate risk, 939 on New York Stock Exchange (NYSE), 952 Hong Kong (HSI) market, 951 Hoovers.com, 92 Horizontal date, 293-294 Horizontal mergers, 885 Horizon value, 524 in APV (adjusted present value) approach, 893 in free cash flow to equity (FCFE) approach, 895 Hospital Corporation of America (HCA), 691-692, 693 Hostile takeovers, 540-541, 887-888 in foreign markets, 546-547 state laws and, 889-890 HSI market, 951 Hughes Aircraft, 283 Humped yield curve, 187 Huntsman, 676 Hurdle rate, 383 I. See Interest rate (I) Ibbotson Associates, 348 IBM in computer hardware industry, 142

foreign earnings, taxes on, 110

mega-grants from, 313 and operating leases, 715 zero coupon bonds, 159 ImClone, 11 Immunization of bond portfolios, Web Extension 5C Impairment of capital rule, 659 Impairment test, 905 Importing/exporting. See Foreign markets; Multinational corporations Incentives. See also Perks going private and, 692 mergers and, 884-885 for warrants, 750 Income bonds, 162 Income statements, 88-90, 112 example, 124 financing feedbacks, Web Extension 14Amergers, effects of, 909–910 percent of sales forecasting, 495-498 Income taxes. See Taxation Increase market power, 882 Incremental cash flow, 417 Independent contractor risk, 836 Independent projects IRR (internal rate of return) and, 386 net present value (NPV) and, 381, 386 Indexed bonds, 162, 175 Index funds, 241 India Bhopal disaster, 920n Bombay Stock Exchange (BSE), 951 Indifference curves, 247-248 Capital Market Line (CML) and, 252 Indirect quotations, 933-934 Industrial production, 266 Industry average current ratio, 125 fixed assets turnover ratio, 128 inventory turnover ratio, 127 quick ratio, 126 total assets turnover ratio, 128 Inflation arbitrage pricing theory (APT) and, 266 business activity and, 18 capital budgeting and, 429-431 Congressional Budget Office updates, 176n cost of money and, 15 currency and, 937 in foreign countries, 177, 497 growing annuities and, 70-71 indexed bonds and, 162 nominal, quoted, risk-free rate, r_{RF}, 177 ratio analysis and, 143 real risk-free rate of interest, r* and, 175-176 risk and, 228-229 Security Market Line (SML) and, 229 Inflation premium (IP), 175-177, 228 Informal liquidation, 856-857 Informal reorganization, 854-856 Information content on dividends, 646-647

Initial public offerings. See IPOs (initial public offerings) Input costs and business risk, 569 Input data for new expansion project, 418-419 Input variance for growth option illustration, 473-476 in investment timing option illustration, 466-468 Insiders and mergers, 913n SEC (Securities and Exchange Commission) and, 684 special-purpose entities (SPEs), 717 trading by, 316n Insolvency, 189, 862. See also Bankruptcy Instinet, 24, 28 Insurable risks, 835 Insurance corporate risk management and, 835 directors' insurance, 912n export credit insurance, 959-960 intellectual property (IP) insurance, 840 municipal bond insurance, 179 **Overseas Private Investment** Corporation (OPIC), 953 for political risk, 953 risk management with, Web Extension 23Aterrorist insurance, 819 INT (dollars of interest) bond valuation and, 164 defined. 39 Intel, 689 on Nasdaq, 28 Intellectual property (IP) insurance, 840 Intellon Corporation, 689 Interest expenses percent of sales forecasting, 497-498 in project cash flows, 424 projecting, Web Extension 25A Interest income personal taxation of, Web Extension 3A taxes on, 107-109 Interest rate (I), 14, 73. See also Bonds; Compounding; Derivatives; Refunding decisions amortized loans, 69-70 annuities, finding for, 58 bond prices and, 166-167 business activity and, 18 coupon interest rate, 158-159 deductibility of interest, 577 defined, 39 determination of, 48-49 effective annual rate (EFF%), 66 on Eurodollar accounts, 949-950 floating-rate bonds and, 159 fractional time periods, 68 futures, 828 inverse floaters, 833 maturity structure and, 694-695 nominal interest rates, 64-65 determinants of, 174 parity, 943-945 percent of sales forecasting and, 497-498

Interest rate (I) (continued) periodic rate, 65-66 prime rate for floating-rate notes, 833 real risk-free rate of interest, r*, 174, 175 reinvestment rate risk, 184-186 relative inflation rates, 948 on revolving lines of credit, 803 short hedges and, 841-842 swaps, 829-831 tabular approach to solving for, Web Extension 2C term structure of interest rates, 186-188 types of, 64-66 and uneven cash flows (CF_t), 61, 63 - 64WACC (weighted average cost of capital) and, 360 Interest rate risk, 183-184 reinvestment rate risk and, 186 Interest vield, 171 Interlocking boards of directors, 540 Intermedia Communications Corp., 744 Internal expansion, 882 Internal rate of return. See IRR (internal rate of return) Internal Revenue Service (IRS). See Taxation International accounting differences, 131 International Accounting Standards Board (IASB), 131 International exchange rate risk, 19 International Harvester, 856 International Lease Finance, 714 International markets. See Foreign markets International Monetary Fund (IMF), 938, 940 floating exchange rates, 939 Internet. See also Web chapters bond data, 163 comparative ratios on, 143 financial analysis on, 92 for personal financial planning, 68 registration statement (Form S-1) on, 680n Interstate public offerings, 680 In-the-money options, 314 Intrinsic value, 8, 285-286 for nonconstant growth rate stocks, 294 purchase price and, 517 Inventories conversion period, 776-780 financing, Web Extension 22A management of, 788-789 multinational corporations managing, 960-961 in percent of sales forecasting, 499 in quick, acid test, ratio, 126 turnover ratio, 126-127 Web Chapter 28 Inverse floaters, 833 Inverted yield curve, 188 Investment banks, 13, 19, 678-679. See also Mergers best efforts basis, working on, 679

convertible bond market, 758-759 junk bond market, 706 market-making by, 684 non-IPO activities, 688-691 overallotment option, 681n preliminary decisions, 688-689 prepackaged bankruptcies, 865-866 private placements, 689–690 Rule 415, SEC, 690 seasoned equity offerings, 690-691 selection of, 689 underwriting syndicates, 679-680 Investment grade bonds, 179–180 Investments cash position and, 93-94 returns on, 201-202 in statement of cash flows, 93-94 WACC (weighted average cost of capital) and, 361 Investment tax credits, 731-732 Investment timing options, 444-445 illustration, 459-470 Investor.reuters.com, 92 comparative ratios on, 143 Investors. See also IPOs (initial public offerings) angels, 676 first day of trading and, 681-682 going private, 691–693 going public and, 678 project financing and, 704 risk aversion, 348 Involuntary bankruptcy, 857–858 IOs (Interest Only) notes, 832-833 IPOs (initial public offerings), 7, 24, 674–675, Web Extension 1C. See also Secondary markets book-building, 680-681 equity carve-outs, 686-687 first day of trading, 681-682 flotation costs for, 357 investment banks and, 678-679 manipulation of price in, 684, 685n market, 22 description of, 24–25 questionable practices, 685–686 quiet period, 680-681 regulation of, 680 roadshows, 680-681 underwriting of, 679-680 IRR (internal rate of return), 63-64, 379, 382 - 384application of, 382-384 high IRR projects, 395 independent projects and, 386 multiple IRRs, 387-389 mutually exclusive projects and, 386-387 net present value (NPV) compared, 384-387 profitability and, 394 rationale for, 384 safety margin information, 394 unequal lives, projects with, 397-399 warrants, bonds with, 753 ITT, 159, 953

Japan corporate governance in, 546 dumping of products, 960, 960n joint ventures in, 916 mergers, 887 Ministry of International Trade and Industry (MITI), 959 Nikkei 225 Index, 951 Tokyo Stock Exchange, 23 JCPenney, 159 Jenson's alpha, 258 Job Creation and Worker Assistance Act of 2002, 428n Jobs and Growth Act of 2003, 642 Johnson Controls, 689 Johnson & Johnson, 2 Joint bidding, 916n Joint ventures, 916-917 with foreign companies, 952n risk, 836 JPMorgan Chase, 19, 674 mega-grants from, 313 Junior mortgages, 178 Junk bonds, 180, 188-189 capital structure decisions and, 585 MM model and, 621 securitization and, 705 Justice Department, 9, 882. See also Mergers and horizontal mergers, 885 and vertical mergers, 885 Kashima Oil, 844-845 Keiretsus, 546 Kellogg's, 564 KeyBanc, 674 Kickback schemes, 685-686 Kinder Morgan, 692 Kmart, 689 bankruptcy of, 189 Kohlberg Kravis Roberts & Company (KKR), 692-693 leveraged buyouts (LBOs) and, 917-918 L. L. Bean, 142 Labor unions and bankruptcy, 862 Language and multinational corporations, 932 Law of one price, 945 Laws and regulations bankruptcy law, 857-858 Blue Sky laws, 675n corporate governance and, 544-545 on ESOPs (employee stock ownership plans), 549–550 mergers, regulation of, 888-890 on securities markets, Web Extension 1CLead underwriters, 679 Leap Wireless International Inc., 674 Lease financing, 17, 714-715 after-tax cost of debt, 724 availability of credit, 729 balance sheet effects of, 719-720 capitalizing the lease, 719-720 cash expenditures for, 783 and cash flows, 723

Lease financing (continued) combination leases, 716 discount rate analysis, 724n estimating residual value, 729 FASB Statement 13, 719-720 feedback, 722, Web Extension 20B financial leases, 715-716 and financial statements, 719-721 guideline leases, 718 IRS requirement for, 718 lessee, evaluation by, 721-726 lessor, evaluation by, 726-728 leveraged leases, 728, Web Extension 20C loans and, 720n NAL (net advantage to leasing) for lessee, 724-726 and lessor, 728 non-tax-oriented leases, 719 operating leases, 715 disclosure rules, 721 payment, setting, 727-728 present values (PVs) of payments, 721n real estate leases, 729-730 residual value, 723, 729 safe harbor leases, 719n sale-and-leaseback arrangements, 716 securitization, 731 servicing leases, 734 synthetic leases, 717 taxation, 718-719 laws, effect of, 731-732 securitization, 731 securitization of leaes, 731 tax rates, 731-732 vehicle leasing, 730-731 Legal fees for bankruptcy, 867, 868 Legal issues of multinational corporations, 932 Legislative risk, 836 Letters of credit for energy traders, 826 for international credit management, 959 Leverage. See also Operating leverage degree of financial leverage (DFL), Web Extension 16A degree of operating leverage (DOL), Web Extension 16A financial leverage, 572-574 holding companies and, 921 leases, leveraged, 728, Web Extension 20C MM models and, 615-616 repurchases for, 653 Leveraged buyouts (LBOs), 581, 691-693, 882,917-918 mergers and, 886 MM model and, 621 of RJR Nabisco, 161 Liabilities. See also Product liability on balance sheet, 87-88 international capital structures and, 956-957 loss exposures, Web Extension 23A operating current liabilities, 96-97 pension liability, 37

Liability risks, 835 LIBOR (London Interbank Offer Rate), floating-rate bonds, 159 swaps and, 829-831 Licenses and real options, 332 Life-cycle theory, 4-7 dividends policy and, 661 Life insurance companies, 20 LIFO (last-in, first-out), 86-87 Limited liability of corporations, 6 Miller model and, 621 MM model and, 621 Limited liability companies (LLCs), 5 Limited liability partnerships (LLPs), 5 Limited partnerships, 5 Long Term Capital Management (LTCM), 824-825 venture capital funds as, 676 Linear programming, 402 Lines of credit, 802, 803 Liquid assets, 123 Liquidating dividends, 659 Liquidation, 189–190. See also Bankruptcy divestitures, 918-919 informal liquidation, 856-857 Liquidity balance sheets listing, 85 Nasdaq and, 28 in small businesses, 365 Liquidity premiums (LPs), 183 Liquidity ratios, 123-126 current ratio, 125 quick, acid test, ratio, 126 Listed Options Quotations Table, 315 Loans. See also Amortized loans cross-default provisions, 858 lease financing and, 720n liquidation in bankruptcy and, 868n secured loans, 804 short-term bank loans, 801-803 360/365 day year for, 68 Local markets, 22 Lockbox plan, 787-788 Lockheed Martin, 853 zero coupon bonds, 159 Loews Corporation, 284 London SEAQ, 24 London Stock Exchange (LSE), 28-29 Long hedges, 841 Long Island Lighting, 704n Long portfolio, arbitrage with, 611–612 Long position, Web Extension 1B Long-term bonds, 501 Long Term Capital Management (LTCM), 21 derivatives misuse, 824-825 Long-Term Equity AnticiPation Security (LEAPS), 316 Long-term gains or losses, 111, 113 Long-term operating assets, 96 Loss aversion, 270 Low-regular-dividend-plus-extras policy, 651-652 LTV Corporation, 872, 884

Lufthansa, 714 Lumpy assets, 506-507 MACRS (Modified Accelerated Cost Recovery System), 427-429 lease financing and, 718 Magellan Fund, 258-259 Magnavox, 929 Maintenance margins, 685 for futures, 839 Make-whole call provision, 161 Managed floating rates, 939-940 Management, 7. See also Bankruptcy; Cash management; Compensation; Corporate governance behavior, 537-538 control and dividends, 660 debt and, 581 entrenched management, 538 excess cash and, 581 going private and, 692 mergers and, 884-885 options, 444 project financing and, 704-705 risky options and, 627 Mandatory convertible-preferred stock, 744-745 Manhattan Project, 436-440 Mannesmann AG, 886, 888 Manville asbestos case, 871 Marakon Associates, 536 Marginal cost of capital (MCC), 401, Web Extension 11B Marginal debt, 342 Marginal investors, 299 Marginal tax rate, 107 Margin calls, 685 Margins, 685 for futures, 839 trading on, Web Extension 1C Mark-to-market futures contracts, Web Extension 1B Marketable securities, 799-800 in mergers, 883 Market auction preferred stock, 747 Market/book (M/B) ratio, 135 Market-making, 24 securitization and, 705 Market model, CAPM (Capital Asset Pricing Model) compared, 257-258 Market multiple analysis, 297 Market neutral funds, 241 Market price, 8. See also Bonds for call options, 316-320 premium, use of term, 318n and stock valuation, 285 Market risk, 215–219 beta coefficient, 219-220 events affecting, 217 for individual projects, 363, 364 Market risk premium (RP_M), 226 Capital Market Line (CML) and, 252 for CAPM (Capital Asset Pricing Model), 348-350, 365-366 and WACC (weighted average cost of capital), 360

Markets. See Foreign markets; IPOs (initial public offerings); Over-thecounter (OTC) markets; Secondary markets; Stock markets Market value added (MVA). See MVA (market value added) Market value ratios, 134-135 market/book (M/B) ratio, 135 price/cash flow ratio, 134 price/earnings (P/E) ratio, 134 Market values, 86 Marketwatch.com, 92 Marking to market, 839 Matrix Securities, 172 Maturity for bonds, 160 of commercial paper, 803-804 short-term bank loans, 801-802 Maturity matching, 693-694, 800 and working capital, 797-799 Maturity risk premium (MRP), 183-186 expectations theory and, 188 Maturity structure amount of required financing and, 695 collateral and, 695 forecasts, effects of, 694-695 information asymmetrics and, 695 interest rates, effects of, 694-695 maturity matching, 693-694 Maximization of value, 7–12 **McDonalds** in foreign markets, 929 purchasing power parity (PPP), 946 McDonnell Aircraft, 853 MCI, 106, 884-885 McKesson Corporation, 687 McKinsey & Company, 536 Media and corporate governance, 546-547 MediaOne Group, 887 Merck, 9 accounting fraud, 99 Mergers, 881-882. See also Hostile takeovers; Leveraged buyouts (LBOs) abnormal returns and, 915 all-cash offers, 888 antitrust issues, 882n, 885 investment banks raising, 912 APV (adjusted present value) approach, 891-894, 899-900 arbitrage operations, 914 asset replacement and, 884 bid price capital structure changes and, 903-904 setting, 901-902 tax considerations and, 904–906 breakup value and, 885 capital structure bid price, changes and, 903-904 tax shield and, 902–903 true consolidation analysis, 910-911 valuation and, 896-901 corporate alliances, 916-917 corporate valuation model for, 897-899 debt-financed mergers, 887

defensive tactics, 912-913 discounted cash flow (DCF) and valuation, 890-891 diversification and, 884 empirical evidence on, 914-916 ESOPs (employee stock ownership plans) and, 913 event study evidence, 915-916 fair value, establishing, 913 financial reporting for, 908–910 financing mergers, 913-914 free cash flow to equity (FCFE) approach, 890, 894-896, 900-901 friendly mergers, 887, 888 going public and, 677 golden parachutes, 912 goodwill assets, 906 income statement effects and, 909-910 treatment of, 88n impairment test, 905 income statement effects, 909-910 investment banks arbitrage operations, 914 arranging mergers, 911-912 defensive tactics and, 912-913 fair value, establishing, 913 financing mergers, 913-914 large mergers, 885 mistakes in, 915 net asset value, 908 nontaxable offers, 905-906 overpayment, 915 overview of analysis, 890-891 parked stock, 912 payment forms, 906 personal considerations and, 884-885 poison pills, 912 pooling, use of, 905, 908n post-merger cash flows, 897-898 purchase accounting, 905, 908-909 rationale for, 882-885 regulation of, 888-890 risk and, 836 SEC (Securities and Exchange Commission) and, 908 state laws, 889-890 stock purchase rights, 912 strategic alliances, 916-917 super poison put, 161 synergistic benefits, 882-883 dividing, 901-902 overestimation of, 915 true consolidation and, 910-911 taxable offers, 905-906 tax considerations, 882, 883 bid structure and, 904-906 goodwill assets, 906 true consolidation analysis, 910-911 tax shield and capital structure, 902-903 touting issue, 912 true consolidation analysis, 910-911 types of, 885 waves of, 886-887 white knights/white squires, 912 Williams Act requirements, 889

Merrill Lynch, 13, 19, 26, 83 beta coefficient for, 223 Goodbody & Company, 853 hedging by, 842 junk bond market, 706 leasing companies of, 726 special-purpose entities (SPEs), 717 touting issue, 912 Metallgesellschaft, 824 Microsoft, 2, 5 beta coefficient for, 223 dividends, 639 foreign earnings, taxes on, 110 mega-grants from, 313 on Nasdaq, 28 repurchases, 639 risk management, 836 Microwave Telecommunications Inc. (MTI), 690-691 Miller model, 617-620 criticisms of, 620-622 Minimum risk portfolio, 245 MIPS (Modified Income Preferred Securities), 745 Mirant Corporation, 827 MIRR (modified internal rate of return), 379, 389-390 Misrepresentations in prospectus, 680 Mission statements, 487 MITE Corporation, 889 Mittal Steel Co., 884 MM model, 575–580. See also Arbitrage arbitrage proof, 609-611 assumptions, 607-608 and bird-in-the-hand theory, 642 clientele effect, 645-646 with corporate taxes, 612-613 illustration of, 614-617 criticisms of, 620-622 and dividend irrelevance theory, 641-642 empirical evidence and, 583 illustration of, 613-617 nonzero growth extension, 622-625 illustration of, 625 risky tax shield extension, 622-625 taxes and, 608-609 with zero taxes, 614 Moderate working capital policy, 780 Modified internal rate of return. See MIRR (modified internal rate of return) Modigliani-Miller model. See MM model Monetary unions, 941 Money.cnn.com, 92 Money market preferred stock, 747 Money markets, 16, 20-21, 22 securities, 14 Monte Carlo simulation, 436-440 standard deviation of NPV in, 439n Moody's Investor Service bond ratings, 179 on Bowie Bonds, 706 capital structure decisions and, 585 Morgan Stanley, 19, 84, 689 fair value, establishing, 913 junk bond market, 706 merger, 883, 883n

Mortgages, 17 amortization of, 69-70 bonds, 178, 705-706 CMOs (collateralized mortgage obligations), 832-833 markets, 22 securitization of, 832-833 The Motley Fool site, 92 Motorola, 689 quarterly earnings forecasts, 122 ROCE (return on capital employed), Multifactor models, 231 Multinational corporations. See also Currencies; Exchange rates capital budgeting, 952-956 capital markets, 949-952 capital structures, 956-958 cash flow estimation, 953-954 cash management, 958 defined, 930 domestic financial management compared, 931-933 Eurodollar market, 949-950 international bond markets, 950-951 international stock markets, 951-952 inventory management, 960-961 project analysis, 954-956 purchasing power parity (PPP), 945-948 reasons for going global, 930-931 relative inflation rates, 948 risk exposure, 952-953 transfer pricing, 954 working capital management, 958–961 Multiple discriminant analysis (MDA), 873, Web Extension 24B Municipal bonds, 17 individuals, taxation of, 111 insurance, 179 issuance of, 158 Mutual funds, 20-21, 241. See also Money markets transfers through, 13 Mutually exclusive projects IRR (internal rate of return) and, 386-387 net present value (NPV) and, 381, 386-387 Mutual savings banks, 20 MVA (market value added), 103-104, 113 capital budgeting and, 378 EVA (economic value added) compared, 106 example, 105 of General Electric, 340 hostile takeovers and, 540-541 in value-based management, 533-534 N. See Number of periods (N) Naked options, 314 NAL (net advantage to leasing). See Lease financing Nasdaq, 23, 24, 28 Composite Index, 27 dividend yields, 644

Instinet, 24, 28 listing requirements, 684

independent projects and, 386 inflation adjustment and, 430 IRR (internal rate of return) compared, 384-387 large NPV projects, 395 linear programming, 402 Monte Carlo simulation, 436-440 multinational corporations estimating, 955-956 mutually exclusive projects and, 386-387 nonnormal cash flows and, 387-388 and optimal capital budget, 401-402 probability distribution, 439-440 profiles, 384-385 profitability and, 394 rationale for method, 382 refunding, analysis of, 696-697, 700-703 replacement chains and, 397–398 scenario analysis, 432, 434-436 sensitivity analysis, 432-433 sunk costs and, 425 unequal lives, projects with, 397-399 Net worth, 88 Neuer Market, 24 New debt, 342 New equity break point, Web Extension 11B New expansion project estimates, 418-423 New issues, 170 New York Commodity Exchange, 843-844

New York Stock Exchange (NYSE),

competition with, 28-29

rational investors and, 304

National Association of Credit

Management, 855n

Dealers (NASD), 685

National Association of Securities

N-asset case, 245-246

National markets, 22

16

Net float, 787

Net income, 88-89

defined, 775

Natural hedge, 840-841

Negotiated deals, 688

Net effects of ratios, 144

Navistar International, 856

Negative growth rates, 293n

Net asset value and mergers, 908

Net cash flow, 91-92, 112, 418

cash position and, 93-94

net cash flow and, 91

also Real options

application of, 380-382

base-case NPV, 432–433

cost of capital and, 385

decision trees and, 443

break-even analysis, 432-433

primary equity market dealers, 684

Negotiable certificates of deposit (CDs),

for new expansion project, 421-423

Net investment in operating capital, 100

Net present value (NPV), 378, 380. See

Net operating working capital, 96-97, 113

New York Stock Exchange (NYSE), 22, 23.26American Depository Receipts (ADRs) on, 952 Archipelago, 24 on average-risk stock, 220 bonds on, 163 Composite Index, 27 market return and, 351 General Motors and, 283 Goodbody & Company and, 853 historical betas and, 261 IPOs (initial public offerings) and, 683-684 member organizations, 26 as modified auction market, 26n Nasdaq, competition with, 28-29 options, availability of, 315 trading on, Web Extension 1C Nextel Communications, 744 Nike, 936 Nikkei 225 Index, 951 Nine Mile Point nuclear project, 704n Nominal, quoted, risk-free rate, r_{RF}, 177 Nominal interest rate. See Interest rate (I) Noncash charges, 424 Nonconstant cash flows. See Uneven cash flows (CF_t) Nonconstant growth rate stocks. See Dividends Nonconvertible currencies, 940-941 Nonconvertible preferred stock, 746 Nondiversifiable risk, 216n Nonnormal cash flows, IRR and, 387-388 Nonoperating assets, 96, 519, 520 Nonpecuniary benefits, 537 Non-tax-oriented leases, 719 Nonzero growth extension. See MM model NOPAT (net operating profit after taxes), 98-99, 113 business risk and, 568 estimating components of, 417 evaluating, 102 generation of, 640 value-based management and, 531-535 Norfolk Southern, 9 Normal cash flows, IRR and, 387 Normal distribution, Web Extension 6A Normal yield curve, 188 Northwest Airlines, 851 Notes. See also Promissory notes financial futures as, 837 inverse floaters, 833 IOs (Interest Only) notes, 832-833 POs (Principle Only) notes, 832 structured notes, 832-833 Not-for-profit businesses, management of, Web Chapter 30 Notional principal, 829 NOWC (net operating working capital) aggressive approach, 799 conservative approach, 799 defined, 775 estimating cash flows and, 417 moderate working capital policy, 780 permanent NOWC, 797-799

NOWC (net operating working capital) (continued) project analysis of changes, 424 relaxed working capital policy, 780-781 restricted working capital policy, 780-781 temporary NOWC, 797-799 Nucor, 774 Number of periods (N) annuities, finding for, 57 bond valuation and, 164 defined, 39 determination of, 49-50 Obsolescence inventory turnover ratio and, 127 risk, 836 Occidental Petroleum, 953 Off-balance sheet financing, 719 Office of the U.S. Trustee, 857-858 Oil price risk, 820-821 Olivetti, 888 Omissions in prospectus, 680 100-year bonds, 160n On-the-run bonds, 170 OpenIPO, 681-682 Operating activities, 93-94 Operating assets, 96-98, 519-520 current assets, 96, 112-113 evaluating, 102 long-term assets, 113 percent of sales forecasting and, 498-500 working capital, 96-97 Operating break-even, 571 Operating companies, 920 Operating current liabilities, 96-97, 113 Operating economies, 882 and mergers, 885 Operating leases. See Lease financing Operating leverage business risk and, 569-572 illustration of, 570 technology and, 571-572 Operating mergers, 897 Operating plans, 488-489 Operations, value of. See Value of operations Operations risk, 836 Opportunity costs, 46, 346 EVA (economic value added) and, 104 project analysis and, 425 Optimal capital budget, 401-402, Web Extension 11B risk management and, 821 Optimal distribution policy, 641 Optimal portfolios, 246-249 Optimal price range for stocks, 662 Option price binomial approach, 320-325 Black Scholes Option Pricing Model (OPM), 325-330 capital structure and, 333-334 real options, 332 risk-free rate, 319-320 riskless hedge concept, 320 risk management and, 332-333

stock price and, 319-320 types of options, 314-316 Options, Web Extension 1B. See also Call options; Derivatives; ESOPs (employee stock ownership plans); Expiration date; Put options defined, 314 employee stock options, 319 equilibrium value of, 327 insider trading, 316n premium, use of term, 318n quotations for, 315 real options, 332 risk, 318-319 taxes and, 329 values, 458 Option to delay, 444-445 Orange County, California, 824 Ordinary annuities, 50–51, 72 future values (FVs) for, 51-53 present values (PVs), 54-55, Web Extension 2C tabular approach, Web Extension 2C Ordinary income, taxation of, 111 Organization for Economic Cooperation and Development (OECD), 956 Original issue discount (OID) bonds, 159 Original maturities, 160 OSHA (Occupational Safety and Health Administration), 9 OTC Bulletin Board, 28, 684 Outcry auctions, 23 Out-of-the-money call options, 314 Outsourcing vehicle leasing, 730 Outstanding bonds, 170 Overallotment option, 681n Overconfidence, 271–272 Overseas markets. See Foreign markets **Overseas Private Investment** Corporation (OPIC), 953 Oversubscribed IPOs, 681 Over-the-counter (OTC) markets, 28n American Depository Receipts (ADRs) on, 952 National Association of Securities Dealers (NASD) and, 685 Pacific Exchange, 26 Pacific Gas and Electric, 189, 853 Parent companies, 920 Parking stock, 912 Partial public offerings, 686-687 Partnerships, 5 income, reporting of, 112 Par value of bonds, 158 Patents, 395 Payables deferral period, 777-780 Payback, 379. See also Discounted payback capital budgeting and, 391-393 evaluating approach, 393-394 risk and liquidity indications, 395 Payment date dividends, 653 Payment-in-kind (PIK) bonds, 159 Payment-in-kind (PIK) dividends, 744 Payment (PMT). See also Cash management annuity payments, finding, 57

lease financing, setting payment in, 727-728 merger payments, 906 use of term, 59 wire payments, 788 Payoff matrix, 204 Payouts. See also Distributions; Dividends clientele effect, 645-646 Peaking units, 445 Pecking order hypothesis, 580 Pegged exchange rates, 940 Pension Benefit Guarantee Corporation, 37 Pension plans, 21 CMOs (collateralized mortgage obligations) and, 833 liability, 37 liquidation in bankruptcy and, 868, 868n types of, 37 underfunding of, 37 Web Chapter 29 People risk, 836 PepsiCo corporate scope, 488 spin-off by, 919 Percentage cost analysis, Web Extension 20APercentage flotation cost, 344 Percentage returns investment returns, 201 in investment timing option illustration, 466n Percent change analysis, 137, 138-140 Perfect hedge, 842 Periodic rate, 65-66 Perks excess cash and, 581 for management, 537 Permanent NOWC, 797-799 Perpetual preferred stock, values of, Web Extension 8A Perpetuities, 58-59, 73 Per-procedure leases, 733-734 Personal taxation, 111–112, Web Extension 3A arbitrage, Miller model of, 617-620 Miller, Merton and, 577 Miller model, 617-620 MM model and, 608-609 Pfizer, 886 Phased decisions, 441-444 Philips, 929 joint ventures by, 916 Phillips Petroleum, 689 as LBO company, 693 Physical asset markets, 22 Physical exchanges, 683-684 Physical life issue, 399–400 Physical location exchange, 23 Pink Sheets, 28 Pizza Hut, 941 Plug technique, 494 PMT. See Payment (PMT) Poison pills, 541, 912 Poison puts, 161 Polaroid, 913

Political risk, 836, 932 capital budgeting and, 953 Politics. See also Political risk and multinational corporations, 931 Pollution control bonds, 179 Pooling in merger accounting, 905, 908n Portfolio companies, 676 Portfolio risk, 202, 211-222 beta coefficient, 219-220 CAPM (Capital Asset Pricing Model) and, 217 diversifiable risk, 215–219 efficient portfolios, selecting, 242-246 market risk, 215-219 minimum risk portfolio, 245 size of portfolio and, 217 Portfolios, 211-212. See also Portfolio risk arbitrage pricing theory (APT) and, 264-267 beta coefficient for, 220-222, 258-259 efficient frontier, 247 efficient portfolios, 242-246 indifference curves, 247-248 N-asset case, 245-246 optimal portfolios, 246-249 returns, 212-213 two-asset case, 242-245 POs (Principle Only) notes, 832 Pounds. See Great Britain Precautionary balances, 781 Preemptive bids, 888 Preemptive rights, 282, Web Extension 19APreferred stocks, 17, 297-301 adjustable rate preferred stocks (ARPs), 746-747 advantages/disadvantages of, 747 arrearages, 743 on balance sheets, 87 corporate income taxes and, 108n cost of preferred stock, r_{ps}, 344–345 cumulative issues, 743 defined, 743 features of, 743-746 mandatory convertible-preferred stock, 744-745 market auction preferred stock, 747 maturity dates, 745 nonconvertible preferred stock, 746 payment-in-kind (PIK) dividends, 744 in percent of sales forecasting, 501 perpetual preferred stock, values of, Web Extension 8A restrictions, 659 risk of, 744 sinking funds for, 131n tax disadvantage of, 746 zero coupon convertible preferred stock, 744 Preliminary prospectuses, 680 Premium in foreign exchanges, 942-943 as option price, 318n Premium bonds, 167, 171 below coupon rate bonds, 170 Prepackaged bankruptcies, 865-866

Present values (PVs), 39, 46-48. See also Net present value (NPV) of annuities due, 55-56, Web Extension 2C in binomial approach, 323 of constant growth stock dividends, 289 defined, 39 discounting, 46 of lease payments, 721n methods for calculating, 46-47 of ordinary annuities, 54-55, Web Extension 2C of perpetuities, 59 in refunding analysis, 700 tabular approach, Web Extension 2C of uneven cash flows (CFt), 61 Price. See also Market price; Option price; Stock price conversion price, P_c, 754–755 warrants, initial market price of bond with. 748-749 Price/cash flow ratio, 134 Price/earnings (P/E) ratio, 134 Primary markets, 22-23 Prime rate for floating-rate notes, 833 Privately owned businesses, 364-365 Private markets, 23 Private placements, 675, 689-690 Private Securities Litigation Reform Act of 1995, 122 Probability distributions, 203 continuous distributions, 206, Web Extension 6A Monte Carlo simulation, 436-440 for normal distributions, 208 NPV probability distribution, 439-440 for rate of return, 205 scenario analysis and, 434 standard deviation and, 205-208 variance, 207 Procter & Gamble, 2 beta coefficient for, 223 derivatives misuse, 824 ESOPs (employee stock ownership plans) and, 913 Gillette merger, 881 Production efficiency, 930-931 Production opportunities, 15 Product liability, 836 bankruptcy and, 871 Products cycles, 293n new products, business risk and, 569 Professional associations, 6 Professional corporations (PCs), 6 Profit, 88-89. See also NOPAT (net operating profit after taxes) accounting profit, 100 doctoring, 95 EVA (economic value added) and, 104 margin on sales, 132 Profitability IRR (internal rate of return) and, 394 net present value (NPV) and, 394 Profitability index (PI), 379, 391 high PI projects, 395 indications from, 395

Profitability ratios, 132–133 basic earning power (BEP) ratio, 132-133 profit margin on sales, 132 return on common equity, 133 return on total assets (ROA), 133 Profit margin in AFN (additional funds needed) formula, 493 on sales, 132 Pro forma reporting, 90n, 487 Programmed trading, 327n Progressive tax, 111, 113 Project analysis. See also Real options; Stand-alone risk conclusions on, 440-441 externalities and, 425-426 fixed assets, purchasing, 424 interest expenses, 424 Monte Carlo simulation, 436-440 by multinational corporations, 954-956 noncash charges, 424 opportunity costs and, 425 replacement project analysis, Web Extension 12A scenario analysis, 432, 434-436 sunk costs, 425 Project cash flows. See Cash flow estimation Projected financial statements, 487 Project financing, 344, 703-705 advantages of, 704 history of, 704 Projects economic life issue, 399-400 physical life issue, 399-400 replacement projects, 426 unequal life analysis, 397–399 Promised rate of return for bonds, 168 Promissory notes, 802 commercial paper, 803-804 Property loss exposures, Web Extension 23AProprietary technology, 395 Proprietorships, 4-5 income, reporting of, 112 Prospectus, 680 Proxies, 281 Proxy fights, 281 corporate raiders and, 888 Proxy statements, 685 Prudential Insurance Company, 20, 689 Prudential Securities, 844 Public Company Accounting Oversight Board (PCAOB), 544 pro forma reporting, 90n Publicdebt.treas.gov, 174 Publicly held stock, 281 Public markets, 23 Public Service of New Hampshire, 188 Purchase accounting for mergers, 908-909 Purchasing power bonds, 162 Purchasing power parity (PPP), 945-948 Pure expectations theory, 188, Web Extension 5D Pure financial mergers, 897

Pure play method, 363 Putable Automatic Rate Reset Securities (PARRS), 701 Put-call parity relationship, 331 Put options, 314-315 put-call parity relationship, 331 valuation of, 330-331 Qualcomm, 774 Quanax, 774 Quarterly earnings forecasts, 122 Quick ratio, 126 QUIDS (Quarterly Income Debt Securities), 745 Quiet period, 680-681 QUIPS (Quarterly Income Preferred Securities), 745 Quotas for imports and exports, 960 Quotations for options, 315 Quoted interest rates. See Interest rate (I) Qwest, 827n, 884-885 Random Walk Down Wall Street (Malkiel), 200 Rate of return. See also Expected rate of return; IRR (internal rate of return); Realized rate of return bond valuation and, 163 for correlated stocks, 214, 215 cost of debt, r_d, 342–344 expected rate of return, 204-205 for hedge funds, 21 investment returns, 201 probability distributions, 203, 205 risk and, 226–230 Ratio analysis, 123 comparative ratios, 141-143 limitations of, 143-144 net effects of, 144 summary of, 136 uses of, 143-144 Rational investors, 304 Raw materials cash budgeting for, 782-783 from foreign markets, 929, 930 project analysis, 954-956 RCA, 929 Real estate leases, 729–730 Real inflation-free rate of return, r*, 228 Realized rate of return of common stock, 286 historical data for measuring, 208-209 Real options, 332, 443-446 abandonment options, 445 illustration of, Web Extension 13A flexibility options, 445-446 growth options, 445 illustration, 470-476 investment timing options, 444-445 illustration, 459–470 valuing, 446, 458–459 Real risk-free rate of interest, r*, 174, 175-176 Recapitalization, 590-595 corporate valuation model and, 594 super poison put, 161 Receipts, speeding up, 787–788

Receivables management, 789–793 accruals, 794 accumulation of receivables, 791 aging schedules, 792-793 days sales outstanding (DSO), 791-793 monitoring position, 791–793 Recessions bankruptcy and, 189 Federal Reserve and, 16 Recovery allowance for personal property, 428-429 Recovery period, 427 Redeemable at par bonds, 161 Red herring prospectuses, 680 Refunding decisions, 696–703 after-tax investment, determining, 698-699 annual interest savings, calculating, 699-700 investment outlay requirements, 697-699 net present value (NPV), determining, 696-697,700-703 tax savings on flotation costs, determining, 699 Refunding operation, 160 Reg FD (Regulation Fair Disclosure), 122 Regional markets, 22 Registration statement (Form S-1), 680 Regression analysis of beta coefficients, 223, 257 Regulations. See Laws and regulations Regulatory risk, 836 Reinvestment rate risk, 184-186 interest rate risk and, 186 Relative inflation rates, 948 Relative priority doctrine, 861 Relaxed working capital policy, 780–781 REL Consultancy Group, 785 Relevant cash flows, 416 Relevant risk, 217, 819 Reorganization, 189–190. See also Bankruptcy informal reorganization, 854-856 prepackaged bankruptcies, 865-866 time and expense considerations, 866-867 Repatriation of profits, 953-954 Replacement chains, 397–398 Replacement projects, 426 analysis, Web Extension 12A Reports. See also Financial statements annual reports, 84-85, 112 pro forma reporting, 90n, 487 stock market reporting, 284-285 Republic Steel, 884 Repurchases, 653-657 advantages of, 657-658 disadvantages of, 658 dividends compared, 655-659 effects of, 654-655 excess cash, 654 reducing, 581 Microsoft, 639 stock price and, 592-593 targeted stock repurchases, 541, 654 Reputation risk, 836 Required returns, 210-211

of common stock, 286 Residual distribution model, 647-651 dividends and, 651-652 long-term framework, use in, 661 Residual value of lease, 723, 729 Resource allocation risk, 836 Restricted voting rights, 541 Restricted working capital policy, 780-781 Restrictive covenants in indentures, 178 Restructuring, 855 bargaining process and, 856 of debt, 189 Retained earnings statements, 90, 112 equity and, 659-660 Retention growth model, 353 Retention ratio in AFN (additional funds needed) formula, 493 Return on assets. See ROA (return on assets) Return on common equity, 133 Return on equity. See ROE (return on equity) Reuters comparative ratios and, 142 forward-looking risk premiums and, 349 Revaluation of currency, 940 Revco, 852 anatomy of failure, Web Extension 24A bankruptcy of, 853 leveraged buyout of, 918 Reverse borrowing capacity, 580 Reverse stock splits, 662 Revolving credit agreements, 802-803 Rights offerings, Web Extension 19A Risk. See also CAPM (Capital Asset Pricing Model); Market risk; Political risk; Portfolio risk; Risk management; Stand-alone risk airline leasing and, 732–733 in Asia/Pacific region, 436 bond risk, Web Extension 5C business risk, 567-572 operating leverage and, 569-572 corporate bonds and, 157 cost of capital and, 15, 361-364 decision trees, 441-444 defined, 202 discounted payback and, 395 diversifiable risk, 215-219 event risk, 161 exchange rate risk, 19, 30, 939 financial risk, 567–568, 572–574 foreign bonds, 158 historical data for measuring, 208-209 and holding companies, 920 indifference curves, 247-248 inflation and, 228–229 international risk factors, 18-19 leasing and, 733 managerial behavior and, 537 multinational capital budgeting and, 952-953 municipal bonds and, 158 of options, 318-319 payback and, 395 phased decisions and, 441-444

Risk (continued) portfolio risk, 202 of preferred stock, 744 rates of return and, 226-230 short-term financing, 801 standard deviation and, 205-208 trade-off for return, 210 valuation and, 158, 202 weather-related risks, 818 Risk-adjusted costs of capital, 15, 316-364 Risk-adjusted discount rate, 441, Web Extension 12B Risk arbitrage, 914 Risk aversion, 210-211 arbitrage pricing theory (APT) and, 266 changes in, 229-230 Risk-free rate, 319-320. See also MM model and Black Scholes Option Pricing Model (OPM), 329 CAPM (Capital Asset Pricing Model) and, 347 Hamada equation and, 587 Riskless hedge concept, 320 in binomial approach, 322 in Black Scholes Option Pricing Model (OPM), 326 Risk management. See also Derivatives corporate risk management, 834-837 in cyber community, 840 defined, 819 with insurance, Web Extension 23A option pricing and, 332-333 reasons for, 819-822 support for, 821-822 swaps for, 842-843 Risk Management Associates, 137 comparative ratios and, 142 Risk-neutral valuation, 469-470, Web Extension 13B Risk premium (RP), 211 Risk/return indifference curves, 247 - 248Risky cash outflows, Web Extension 12B Risky coupon debt, 629–630 Risky options and capital budgeting, 627-629 debt options, 626-630 equity options, 626-630 Risky tax shield extension to MM model, 622-625 **RIR Nabisco** bonds, 161 leveraged buyout of, 917-918 Roadshows, 680-681 ROA (return on assets), 133 Du Pont equation giving, 140-141 working capital and, 774 ROCE (return on capital employed), 785 ROE (return on equity) Du Pont equation giving, 140-141 financial leverage and, 572-574 retention growth model and, 353 ROIC (return on invested capital), 102 business risk and, 568 EVA (economic value added) and, 104

Rojacks Food Stores lease, 730 Rolling forecasts, 486 Royal Dutch Petroleum, 886 fair value, establishing, 913 on international stock exchanges, 952 Rule 415, SEC, 690 Safe harbor leases, 719n Safety stocks, 780 precautionary balances, 781 Sale-and-leaseback arrangements, 716 Sales in AFN (additional funds needed) formula, 493 business risk and, 568 forecasts, 489-491 to other firms, 918-919 financial statements forecasting, 496 value-based management and, 531-535 Salomon Smith Barney, 22 hedging by, 842 junk bond market, 706 Salvage values, 419, 421 Sanofi-Syntelabo SA, 886 Sarbanes-Oxley Act of 2002, 9, 106, 543, 544 expenses under, 677 Savings and loan associations (S&Ls), 20 SBC Communications, 886 Scenario analysis, 432, 434-436 of growth option illustration, 471-472 in investment timing option illustration, 461-463 S corporations, 7, 113 income, reporting of, 112 taxation of, 111 Seabrook nuclear plant, 188 Sears, Roebuck & Co., 689 Dean Witter and, 883, 883n Seasonal factors, 143 Seasoned equity offerings, 24, 170, 690-691 Secondary markets, 22-23, 25-29, Web Extension 1C. See also American Stock Exchange (AMEX); New York Stock Exchange (NYSE) competition in, 28-29 importance of, 683-684 regulation of, 684-685 types of, 23 Second mortgage bonds, 178 Second-tier holding companies, 921 SEC (Securities and Exchange Commission), 84n bankruptcy reorganization plans to, 862n corporate governance and, 544-545 creation of, 675 indentures, approval of, 178 Internet information, 92 mergers and, 908 on options trading, 316 and private placements, 689-690 pro forma reporting, 90n Reg FD (Regulation Fair Disclosure), 122 Rule 415, 690

sales, regulation of, 680 secondary market regulation, 684-685 Secured loans, 804 Securities. See also Derivatives; Investment banks; Refunding decisions cash position and, 93-94 defined, 14 major financial securities, summary of. 16 regulation of sales, 680 Securities Act of 1933, 675 Securitization, 687, 705-706 lease securitization, 731 of mortgages, 832-833 and social welfare, Web Extension 1A Security Industry Association, 10 Security Market Line (SML), 226-228 beta coefficient and, 227 Fama-French three-factor model and, 269 inflation and, 229 required returns and, 254 risk aversion and, 229-230 slope of SML, tests based on, 262-264 Security price exposure, 840-843 Self attribution bias, 271–272 Self-dealings, 677 Self-liquidating approach, 797–799 Selling groups, 679 Semiannual compounding, 64 Semiannual coupon bonds, 173 Semistrong form of EMH, 302–303 Senior mortgages, 178 Sensitivity analysis of growth option illustration, 473 for investment timing option illustration, 464 Monte Carlo simulation, 436-440 stand-alone risk and, 432 September 11th attacks carryback provisions and, 109n Dow Jones Industrial Average and, 300 Job Creation and Worker Assistance Act of 2002 and, 428n terrorist insurance, 819 7 Eleven, 774 Shamrock Holdings, 913 Shareholder distributions. See Distributions Shareholder rights provisions, 541 Shareholder wealth. See Wealth Sharpe's reward-to-variability ratio, 258, 259 Shelf registrations, 690 Shell Transport and Trading, 886 Sherman Act of 1890, 882n Short hedges, 841 Short position, Web Extension 1B Short sales, Web Extension 1C arbitrage with, 611–612 Short-term financing, 800-801, Web Extension 22A security for, 804 Short-term securities, 14 Signaling content on dividends, 646-647 Signaling theory, 579-580

Silicon Graphics, 142 Simtools.xla, 438 Simulation analysis, 436-440 Sinking funds, 131n, 161-162 Slush funds, 494 Small businesses, cost of capital for, 364-365 SmallCap Market, 28 listing requirements, 684 Smartmoney.com, 68, 92 SmithKline Beecham, 886 as multinational corporation, 931 Social welfare securitization and, Web Extension 1A stock price and, 8–10 Soft currencies, 941 Sole proprietorships. See Proprietorships Southern Company, 827 Southwest Airlines, 2 Specialists, Web Extension 1C Special-purpose entities (SPEs), 717 Specified sources of financing, 494 Speculation, 823 futures for, 840-841 margins for, 839n Speculative balances, 800 Spinning, 685-686 Spin-offs, 918-919 Spin outs, 686–687 Spontaneous liabilities-to-sales ratio, 493 Spot markets, 22, 825 Spot rates in foreign exchanges, 942-943 Spread on going public, 683 Spreadsheets annuity payments, finding, 57 bond values, finding, 165-166 future values (FVs) and, 42-44 present values (PVs) with, 46-47 uneven cash flows (CF_t) and, 61–62 Stability of dividends, 647 Stand-alone risk, 202-203 coefficient of variation (CV) for, 209-210 conclusions on, 440-441 for individual projects, 363 measuring, 205-208 Monte Carlo simulation, 436-440 scenario analysis, 432, 434-436 sensitivity analysis, 432-433 techniques for measuring, 431-440 Standard deviation beta coefficient and, 219 Capital Market Line (CML) and, 253 Monte Carlo simulation, NPV in, 439n Security Market Line (SML) and, 254 stand-alone risk, measuring, 205-208 in two-asset case, 242-243 Standard & Poor's 100 Index, 315 Standard & Poor's 500 Index, 27 annual returns, 29-30 bond ratings, 179 capital structure decisions and, 585 market/book (M/B) ratio, 135 market return and, 351 and merger mistakes, 915 Starbucks, 2 average debt ratios, 564

Start-up companies. See also IPOs (initial public offerings) corporate valuation and, 518 financial life cycle of, 675-676 product cycles and, 293n State Department, 19 Statement 141, 905, 908n Statement of cash flows, 93-95, 112 Statement of corporate objectives, 488 Step-by-step approach future values (FVs), 40-41 present values (PVs), 46 Stepped-up exercise prices, 750 Step-up bonds, 159 Stock dividends. See Dividends Stock indexes, 27, Web Extension 1C financial futures as, 837 Stock markets. See also Dow Jones Industrial Average; Efficient Markets Hypothesis (EMH); Foreign markets bull market, 280 capital structure decisions and, 585 equilibrium of, 298-301 international indices, 951 international markets, 951-952 reporting by, 284-285 returns, 29-31 trading procedures, 23-24 transactions, types of, 24-25 types of, 22-23 volatility of, 300 Stock options. See also ESOPs (employee stock ownership plans); Options compensation plans, 542 Stock price, 8. See also IPOs (initial public offerings) capital structure decision and, 590-595 new offerings and, 691 optimal price range, 662 option price and, 319-320 repurchases and, 655 social welfare and, 8-10 stock dividends and, 663-664 stock repurchase and, 592-593 stock splits and, 663-664 volatility of, 300-301 Stock repurchases. See Repurchases Stock splits, 662–664 convertible securities and, 755 Stock valuation, 285-287 by free cash flows (FCFs), 296-297 market multiple analysis, 297 of nonconstant growth rate stocks, 293-297 preferred stocks, 297-298 Straight-line depreciation, 426-427 Strategic alliances, 916–917 Strategic options, 444 Strategic plans, 487–488 in value-based management, 528, 531 Strategic risk, 836 Stretching accounts payable, 796–797 Strike price, 314 market price versus, 316 Stripping Treasury bonds, 832 Strong form of EMH, 303 Structured notes, 832-833

Subordinated debentures, 178 Successful companies Fortune list, 2 key attributes, 3 Sunbeam, 11 Sundaydartboard@wsj.com, 200 Sunk costs, 425 Sun Microsystems, 142 Sun Trust, 888 Supernormal firms, 293–297 Super poison put, 161 Superstar CEOs, 547 Supply chain management (SCM), 790 Supreme Court on hostile takeovers, 889-890 Swaps, 829-832, Web Extension 1B. See also Derivatives currency swaps, 831 interest rate swaps, 829-831 risk management and, 842-843 standardized contracts for, 842-843 Sweeteners, warrants as, 749 Symmetric information, 579 Synergistic benefits. See Mergers Synthetic leases, 717 Systematic risk, 216n Tabular approach to future values (FVs), 40n Takeovers. See also Hostile takeovers; Mergers ESOPs and, 550 poison pills, 912 proxy fights and, 281 super poison put, 161 Tape watchers, 302, 302n Target capital structure, 342, 358, 565, 606-607 residual distribution model and, 649-650 Target cash balance, 783 Target companies, 887–888 Target distribution level, 658 residual distribution model, 647-651 Target distribution ratio, 640 residual distribution model and, 651 Targeted stock repurchases, 541, 654 Target payout ratio, 640 Target stock, 283 Tariffs, 960 Taxable income, 111 Tax arbitrage, 108n Taxation. See also Alternative minimum tax (AMT); Corporate taxation; Depreciation; Dividends; Lease financing; Mergers; Personal taxation arbitrage and, 607 capital structure decisions and, 584-585 double taxation, 6 economic puzzles and, 291 ESOPs, incentives for, 550 of holding companies, 920-921 liquidation in bankruptcy and, 868 MM model and, 608-609 multinational inventory management and, 960-961

Taxation (*continued*) options and, 329 personal taxes, 111-112 preferred stock disadvantage, 746 and prepackaged bankruptcies, 866 risk management and, 821-822 S corporations, 7 WACC (weighted average cost of capital) and, 360 Tax-exempt bonds, 179 Tax preference theory, 642–643 Tax shields in APV (adjusted present value) approach, 892, 892n mergers, capital structure and, 902-903 MM model, risky tax shields and, 622-625 Technology from foreign countries, 930 leasing and, 733 operating leverage and, 571-572 risk, 836 Technology sector, 143 average debt ratios of, 564 TECO Energy, 826-827 Telecom Italia, 888 Telecommunications industry, 827n Temporary NOWC, 797–799 Tender offers, 888 corporate raiders and, 888-889 repurchases by, 654 Terminal date, 293–294 Terminal value (TV), 62-63, 524 MIRR (modified internal rate of return) and, 389-390 Term structure of interest rates, 186-188 Term to maturity of options, 319-320 Terrorism. See also September 11th attacks insurance, 819 and multinational corporations, 932 risk, 836 Texaco, 853 Texas Instruments, 785 BA-II Plus calculator, Web Extension 6B Thestreet.com, 92 Third markets, Web Extension 1C Third parties and risk management, 835 Thomson Financial site, 92 growth rate summaries, 354 Publishing, 929 Threat of removal, 538-539 Three Mile Island nuclear plant, 920 TIAA-CREF, 545 Time lines, 38-39 for bond valuation, 163-164 Time preferences for consumption, 15 Time value of money corporate valuation and, 40, 85 defined, 38 tabular approach, Web Extension 2C Time Warner, 883, 885, 886, 887 AOL (America OnLine) merger, 88n in foreign markets, 929 write downs, 905

TIPS (Treasury Inflation-Protected Securities), 175, 176, Web Extension 5BTokyo Stock Exchange, 23 Tommy Hilfiger, 936 TOPrS (Trust Originated Preferred Stock), 745 Total assets turnover ratio, 128 Total liabilities to total assets ratio, 129 Total net operating capital, 113 Touting issue, 912 Toyota Motor, 2, 929 exchange rate risk, 939 Toys "R" Us, 803 Tracking stocks, 283-284, 284 Trade credit. See Accounts payable Trade deficits, 937 Trade-off theory, 578-579, 630-631 asymmetric information theory combined with, 631–632 debt, issuance of, 583 and marketable securities, 800 Trading stocks, Web Extension 1C Trammell Crow, 842 Tranches, 731 Trane Corporation, 788–789 Transactions balances, 781 Transamerica, 161 Transfer pricing, 954 Transfers of capital, 13 Transparency International (TI), 19, 953, 954 Transportation companies, 564 Travelers, 22 Treasury bills, 13, 16 cost of common equity and, 347 standard deviation for, 210 Treasury bonds, 17, 156, 157 cost of common equity and, 347 default risk premium (DRP), 177 futures, 837-839 indexed bonds, 162, 175 spreads, 181-182 stripping, 832 types of, 157n vield curves for, 187-188 Treasury stock, 653n Trend analysis, 137-140 Treynor's reward-to-volatility ratio, 258, 259 Triangular distribution, Web Extension 6A Triple taxation, 109 True consolidation analysis, 910-911 Trustees for indentures, 178 in informal liquidation, 856 Turner Broadcasting, 188 TVA, 701 Two-asset case, 242–245 Two-for-one stock splits, 662, 663n Tyco, 11 accounting fraud, 99 synthetic leases, 717

Under Armour, 676 Underinvestment problem, 543, 567 Underwriting, 674, Web Extension 1C investment banks, 678-679 overallotment option, 681n securities issues, 13 syndicates, 679-680 Undiscovered Managers Behavioral funds, 241 Unequal life analysis cash flows and, 397-399 replacement chains and, 397-398 Uneven cash flows (CF_t), 59–62 from annuities, 60 designation of, 60-61 example of, 60 future values (FVs) of, 62-63 interest rate (I) for, 63-64 spreadsheets and, 61-62 use of term, 59 Uniform distribution, Web Extension 6A Unimation, 687 Union Carbide Bhopal disaster, 920n DRIPs (dividend reinvestment plans), use of, 664–665 junk bond financing and, 189 as LBO company, 693 United Airlines, 714 bankruptcy of, 189, 851, 853 labor unions, dealing with, 862 sales to other firms, 919 United States Export-Import Bank, 959 Univision, 692 Unlevered beta, 587 Unsyndicated stock offerings, 679-680 Unsystematic risk, 216n USX (U.S. Steel), 189 Utah International, 913 Utility companies. See also Enron average debt ratios, 564 cost of capital and, 341 flotation costs for, 357 Valuation. See also Corporate valuation; Dividends; Mergers; Stock valuation bond valuation, 163-167 of call options, 316-320 capital structure and, 589–590 derivation of equations, Web Extension 8A of European call options, 626-627 financial planning and, 488 financial statement analysis and, 123 free cash flows (FCFs) and, 101–102 of preemptive rights, Web Extension 19Aof put options, 330-331 of real options, 446, 458 risk and, 158 risk-neutral valuation, 469-470 time value of money and, 40, 85 of warrants, 751-752 Value at risk, 441n Value-based management, 518, 528-536. See also Corporate governance EROIC (expected return on invested capital) in, 531-535

Value-based management (continued) in practice, 536 wealth drivers in, 531 Value Line beta calculations, 261 comparative ratios and, 142 and discounted cash flow (DCF), 353-354 forward-looking risk premiums and, 350 Value maximization, 7–12 Value of operations estimating, 520-524 stock repurchase and, 593 Varian Associates, Inc., 487 Variance and Black Scholes Option Pricing Model (OPM), 330 in growth option illustration, 473-476 in investment timing option illustration, 466-468 of probability distribution, 207 Veba AG, 488 Vehicle leasing, 730–731 Venture capital, 676 Verizon Wireless, 885 bond rating, 183 on target capital structures, 606 Vertical mergers, 885 Vesting periods, 542 Vioxx issue, 9 Virus risk, 836 Vodafone Airtouch, 886, 888 Voluntary bankruptcy, 857–858 Voluntary settlements, 854-856 Voting/voting rights board of directors, 539-540 classes of stock and, 283 cumulative voting, 281n for preferred stock, 743 restricted voting rights, 541 W. R. Hambrecht & Co., 682 WACC (weighted average cost of capital), 12, 341-342, 358-360, free cash flows (FCFs) and 102 book value of equity and, 366 capital structure and, 361, 588-589 debt affecting, 565-567 dividend policy and, 361 EVA (economic value added) and, 104 interest rates and, 360 investment policy and, 361

EVA (economic value added) and interest rates and, 360 investment policy and, 361 market risk premium and, 360 and MM model, 575 in project cash flows and, 424 risk and, 820 stock valuation and, 296–297 tax rates and, 360 in trade-off model, 630–631 value-based management and, 531–535

Wachovia, 19, 882–883, 883n hostile takeover bid, 888 true consolidation analysis, 910 Wages cash expenditures for, 783 liquidation in bankruptcy and, 868 The Wall Street Journal bond interest rates, 186 bonds reporting, 163 cross rates in, 935 exchange rates in, 933 Investment Dartboard Contest, 200 stock reporting, 284 wsj.com, 174 Walt Disney Co. in foreign markets, 929 100-year bonds, 160n Warner-Lambert, 886 Warrants Black Scholes Option Pricing Model (OPM) and value of, 749 bonds with, 162 comparison of convertibles to, 762-763 component cost of bonds with, 752-753 defined, 748 detachable warrants, 750 dilution due to, 750-752 in financing, 749–750 initial market price of bond with, 748-749 outstanding warrants, reporting earnings with, 763 stepped-up exercise prices, 750 as sweeteners, 749 valuation of, 751-752 wealth effects of, 750–752 Weak form of EMH, 302 Wealth capital structure decision and, 590-595 managerial behavior, 537-538 maximizing shareholder wealth, 8 warrants and, 750-752 Weather derivatives, 818 Web chapters cash management, advanced issues in, Web Chapter 28 credit, providing and obtaining, Web Chapter 27 inventory control, Web Chapter 28 not-for-profit businesses, management of, Web Chapter 30 pension plan management, Web Chapter 29 Weighted average cost of capital (WACC). See WACC (weighted average cost of capital) Wells Fargo, 19 West African Economic and Monetary Union (WAEMU), 941 Whistleblower protection, 9 White knights/white squires, 912 Wickes, 785 Williams Act of 1968, 889 Wilshire 5000, 351 Window dressing techniques, 143 Windows of opportunity theory, 582

Wire payments, 788

Working capital, 774–775. See also Cash management; NOWC (net operating working capital); Receivables management aggressive approach, 799 cash conversion cycle (CCC), 775-780 cash management, 781-782 cash position and, 93-94 conservative approach, 799 defined, 775 inventory management, 788-789 maturity matching, 797-799 moderate working capital policy, 780 multinational corporations managing, 958-961 relaxed working capital policy, 780-781 restricted working capital policy, 780-781 self-liquidating approach, 797-799 short-term financing policies, 797-799 Workouts, 855 WorldCom, 9 bankruptcy of, 189, 853 corporate valuation and, 537 fraud, 99, 106 ratio analysis and, 144 stock price manipulation, 685 World companies. See Multinational corporations World markets. See Foreign markets Worst-case scenarios, 434 Write-in campaigns, 530 www.bloomberg.com. See Bloomberg Xerox Corporation accounting fraud, 99 dividends, cut in, 652 in foreign markets, 929 technology for, 930 Yahoo!, 92 beta calculations, 261 bond site, 159, 186 prices reported in, 224n valuation of, 474 Yankee bonds, 950 Yield curve, 186–188 Yield to call (YTC), 168-169 Yield to maturity (YTM), 167-168

Zack's growth rate summaries, 354 zacks.com, 92 Zero coupon bonds, 159, *Web Extension 5A* stripping Treasury bonds and, 832 Zero coupon convertible preferred stock, 744 Zero growth stocks, 291 Zero investment portfolio, 266