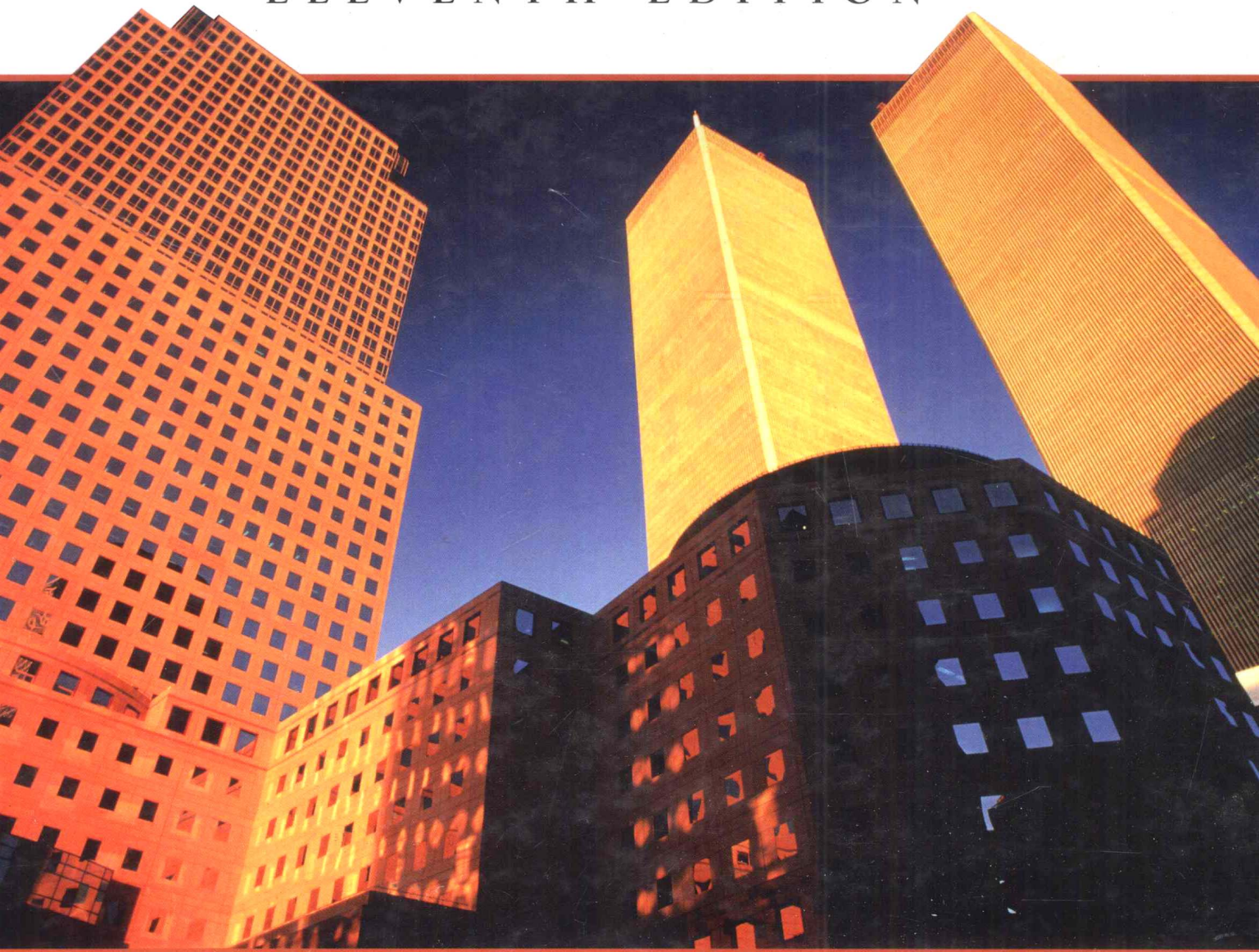


FUNDAMENTALS OF FINANCIAL MANAGEMENT

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JAMES C. VAN HORNE
JOHN M. WACHOWICZ, JR.

Fundamentals of Financial Management

ELEVENTH EDITION

James C. Van Horne

Stanford University

John M. Wachowicz Jr.

The University of Tennessee



Upper Saddle River, New Jersey 07458

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To Mimi, Drew, Stuart, and Stephen
James C. Van Horne

To Emerson, John, June, Lien, and Patricia
John M. Wachowicz Jr.

PREFACE

Financial management continues to change rapidly. Advancements are occurring not only in the theory of financial management but also in its real-world practice. One result has been for financial management to take on a greater strategic focus as managers struggle to create value within a corporate setting. Conflicting stakeholder claims, a downsized corporate environment, information and financial signaling effects, the globalization of finance, the growth of e-commerce, strategic alliances, outsourcing and the emergence of virtual corporations, and a host of other considerations now permeate the landscape of financial decision making. It is an exciting time, and we hope to convey a sense of this excitement to our readers.

The purpose of the eleventh edition of *Fundamentals of Financial Management* is to enable you to understand the financial decision-making process and to interpret the impact that financial decisions will have on value creation. The book therefore introduces you to the three major decision-making areas in financial management: the investment, financing, and asset management decisions.

We explore finance, including its frontiers, in an easy-to-understand, user-friendly manner. Although the book is designed for an introductory course in financial management, it can be used as a reference tool as well. For example, participants in management development programs, candidates preparing for various professional exams, and practicing finance professionals will find it useful. And because of the extensive material available through the text's Web site (which we will discuss shortly) the book is ideal for Web-based training and distance learning.

There are many important changes in this new edition. Rather than list them all, we will explain some essential themes that governed our revisions and, in the process, highlight some of the changes. The institutional material—necessary for understanding the environment in which financial decisions are made—was updated. The book continues to grow more international in scope. New sections, examples, and boxed features have been added that focus on the international dimensions of financial management. Attention was also given to streamlining coverage and better expressing fundamental ideas in every chapter.

Chapter 3, The Time Value of Money, and Chapter 5, Risk and Return, have benefited from expanded coverage. A discussion of economic value added (EVA) has been incorporated into Chapter 15, Required Returns and the Cost of Capital. Chapter 19, The Capital Market, addresses new SEC proposals for streamlining the registration procedures, and looks for the first time at registration rights and underwritten Rule 144a private placements. Chapter 21, Term Loans and Leases, shows major improvements in the discussion of leasing. Finally, we continued our efforts to make the book more user-friendly. New boxed items appear, including tips, Q&As, and special features, to capture the reader's interest and illustrate underlying concepts. Many of these boxed features come from new, first-time contributors to the text—The Motley Fool (www.fool.com); *CFO Asia*, *Exec*, *Strategic Finance*, and *Business Finance* magazines; and Lloyds TSB, Wit Capital, and First Tennessee corporations.

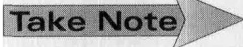
The order of the chapters reflects a common sequence for teaching the course, but the instructor may reorder many chapters without causing the students any difficulty.

For example, some instructors prefer covering Part III, Tools of Financial Analysis and Planning, before Part II, Valuation. Extensive selected references at the ends of chapters give the reader direct access to relevant literature utilized in preparing the chapters. The appendices at the ends of some chapters invite the reader to go into certain topics in greater depth, but the book's continuity is maintained even if this material is not covered.

A number of materials supplement the text. For the teacher, a comprehensive *Instructor's Manual* contains suggestions for organizing the course, answers to chapter questions, and solutions to chapter problems. Another aid is a Test-Item File of extensive questions and problems, prepared by Professor Gregory A. Kuhlemeyer, Carroll College. This supplement is available both in printed form and as a custom computerized test bank (for Windows) through your Prentice Hall sales representative. In addition, Professor Kuhlemeyer has done a wonderful job preparing an extensive collection of Microsoft PowerPoint slides as outlines (with examples) to go along with this text. The PowerPoint presentation graphics are available for downloading through the following Prentice Hall site: www.prenhall.com/financecenter. All text figures and tables are available as transparency masters through this same site listed above. Computer application software prepared by Craig W. Holden of Indiana University, which can be used in conjunction with specially identified end-of-chapter problems is available in Microsoft Excel format on the same site. The companion Web site also contains an Online Study Guide prepared by Gregory A. Kuhlemeyer. Designed to help the student familiarize himself with chapter material, each chapter of the Online Study Guide is comprised of multiple choice, true/false, and short answer questions.

For the student, self-correction problems appear at the end of each chapter in the textbook. These are in addition to the regular questions and problems and give students immediate feedback on their understanding of the chapter.

Learning finance is like learning a foreign language. Part of the difficulty is simply learning the vocabulary. Therefore, we provide an extensive glossary of close to 400 business terms in two formats—a running glossary (appears alongside the textual material in the margins) and an end-of-book cumulative glossary.



Take Note

We purposely have made limited use of Internet addresses (i.e., the address you type into your browser window that usually begins "http://www.") in the body of this text. Web sites are extremely transient—any Web site that we mention in print could change substantially, alter its address, or even disappear entirely by the time you read this. Therefore, we use our Web site to flag other sites that should be of interest to you. We then constantly update our listings and check for any broken or dead links. We strongly encourage you to make use of our text's Web site as you read each chapter. Although the text's Web site was created with students uppermost in mind, we are pleased to report that it has found quite a following among business professionals. In fact, the Web site has received favorable reviews in a number of business publications, including *The Financial Times* newspaper and both *Corporate Finance* and *CFO Asia* magazines.

To help harness the power of the Internet as a financial management learning device, students (and instructors) are invited to visit the text's award-winning Web site, **Wachowicz's Web World**, for which a link can be found at www.prenhall.com/wachowicz. This Web site provides links to hundreds of financial management Web sites grouped to correspond with the major headings in the text (e.g., Valuation, Tools

of Financial Analysis and Planning, and so on). In addition, the Web site contains interactive true/false and multiple-choice quizzes, more than 1,000 PowerPoint slides, and interactive Web-based exercises.

The authors are grateful for the comments, suggestions, and assistance given by a number of business and government professionals. In particular we would like to thank Judy Ames and Selena Maranjian, The Motley Fool; Michael Annin, Ibbotson Associates; Jennifer Banner, Pershing Yoakley and Associates, CPAs and Consultants; John Goff, *CFO Asia* magazine; Sue Harris, Federal Reserve System; John Markese, American Association of Individual Investors; David Montgomery, Morningstar; Rhee Rosenman, Wit Capital; and Annette Winston, Knoxville Area Chamber Partnership. Finally, we want to thank Natacha St. Hill Moore, Maureen Riopelle, Gail Steier, and Maureen Wilson at Prentice Hall and the individuals at Impressions Book and Journal Services, and Steel/Katigbak Indexing, who helped with the production of this edition.

We hope that *Fundamentals of Financial Management*, eleventh edition, contributes to your understanding of finance and imparts a sense of excitement in the process. You, the reader, are the final judge. We thank you for choosing our textbook and welcome your comments and suggestions (please e-mail: jwachowi@utk.edu).

JAMES C. VAN HORNE *Palo Alto, California*
JOHN M. WACHOWICZ JR. *Knoxville, Tennessee*

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