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JEFFREY J. HAAS

Corporate Finance

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2nd Edition

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CORPORATE FINANCE IN A NUTSHELL



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*To Samantha and Peter, my amazing
children whom I love dearly!*

PREFACE

This book is designed for those interested in learning the fundamentals of corporate finance from both a business and legal point of view. In particular, it is targeted towards lawyers without a finance background who find themselves engaged in transactional work. It is also designed to assist law students who are taking a corporate finance, corporations, mergers and acquisitions or related course.

Corporate finance is unique in that it is an amalgam of substantive disciplines. Those with even a tangential familiarity with it are likely aware of the crucial role that mathematics and accounting play. Indeed, it is the math and accounting aspects of a corporate finance course that frequently frighten law students away from taking it. Accordingly, Part I makes a serious attempt to explain these concepts in a straight-forward, plain English manner.

Corporate finance, however, is much more than math and accounting, as Parts II through IV make clear. Under the umbrella of corporate finance falls a whole host of other disciplines. Especially important is economics, particularly macroeconomics. Changes in fiscal and monetary policy at the national level directly impact economic growth and the

PREFACE

interest rate environment, while indirectly affecting corporate growth and earnings. Corporations attempt to navigate the economic landscape and the concomitant risk it carries by engaging in various risk reduction strategies, especially the use of derivative instruments.

The law also plays a large role in corporate finance. Securities laws, both Federal and state, regulate, influence and guide companies raising capital through the sale of their common stock, preferred stock and debt securities. Corporate law, particularly Delaware corporate law, also affects the ability of companies to raise capital due to its strong influence on internal corporate governance and control. Finally, the law of mergers and acquisitions plays a significant role as companies increase or decrease their size through mergers, acquisitions and divestitures.

While this book is entitled *Corporate Finance*, much of what it contains applies to business entities other than corporations. All businesses, regardless of their form, need capital to survive and grow. While the capital structure of these other entities may differ from that of the corporation, the ways in which they pursue and, ultimately, raise capital are similar.

I endeavor to put the most current and accurate information available in this book. Accordingly, I welcome any suggestions or comments that could improve on its contents. Please feel free to contact me with those suggestions or comments.

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ABBREVIATIONS

| | |
|--------------------|--|
| ALI-PCG | American Law Institute's Principles of Corporate Governance: Analysis and Recommendations (1994) |
| Bankruptcy Code | Bankruptcy Reform Act of 1978, as amended |
| CEA | Commodity Exchange Act of 1922, as amended |
| CERCLA | Comprehensive Environmental Response, Compensation, and Liability Act |
| CFTC | Commodity Futures Trading Commission |
| DCF | Discounted Cash Flow (Valuation) Method |
| DDM | Dividend Discount (Valuation) Method |
| DGCL | Delaware General Corporation Law |
| DIP | Debtor-in-possession under the Bankruptcy Code |
| Dodd-Frank | Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 |
| ECMH | Efficient Capital Market Hypothesis |
| ERISA | Employee Retirement Income Security Act of 1974 |
| Exchange Act | Securities Exchange Act of 1934, as amended |
| Exchange Act Rules | Rules promulgated by the SEC under the Securities Exchange Act of 1934, as amended |
| FINRA | Financial Industry Regulatory Authority |

ABBREVIATIONS

| | |
|----------------------|--|
| FV | Future Value |
| GAAP | U.S. generally accepted accounting principles |
| IPO | Initial public offering |
| IRC | Internal Revenue Code of 1986, as amended |
| LBO | Leveraged buy-out |
| M&A | Mergers and acquisitions |
| MBO | Management buy-out |
| MDIP | Model Debenture Indenture Provisions of the American Bar Foundation (1971) |
| MNCRD | Model Negotiated Covenants and Related Definitions (2006) |
| NYBCL | New York Business Corporation Law |
| NYSE | New York Stock Exchange |
| OTC | Over-the-counter (market) |
| P&L | Profit and loss (statement) |
| PV | Present value |
| RMBCA | Revised Model Business Corporation Act |
| RMSI | Revised Model Simplified Indenture (2000) |
| SEC | Securities and Exchange Commission |
| Securities Act | Securities Act of 1933, as amended |
| Securities Act Rules | Rules promulgated by the SEC under the Securities Act of 1933, as amended |
| SOX | Sarbanes–Oxley Act of 2002 |
| TIA | Trust Indenture Act of 1939, as amended |
| UCC | Uniform Commercial Code |

TABLE OF CASES

References are to Pages

A

- Abrons v. Maree, 911 A.2d 805 (Del.Ch.2006), 689
AG Capital Funding Partners, L.P. v. State Street Bank and Trust Co., 11 N.Y.3d 146, 866 N.Y.S.2d 578, 896 N.E.2d 61 (N.Y.2008), 314
Alaska Plastics, Inc. v. Coppock, 621 P.2d 270 (Alaska 1980), 190
Allen v. Biltmore Tissue Corp., 2 N.Y.2d 534, 161 N.Y.S.2d 418, 141 N.E.2d 812 (N.Y.1957), 183
Anadarko Petroleum Corp. v. Panhandle Eastern Corp., 545 A.2d 1171 (Del.Supr.1988), 346, 476, 519, 624
Applebaum v. Avaya, Inc., 812 A.2d 880 (Del.Supr.2002), 546
Arnold v. Phillips, 117 F.2d 497 (5th Cir.1941), 392
Arnold v. Society for Savings Bancorp, Inc., 650 A.2d 1270 (Del.Supr.1994), 699
Ash v. McCall, 2000 WL 1370341 (Del.Ch.2000), 677
Aspen Advisors LLC v. United Artists Theatre Co., 861 A.2d 1251 (Del.Supr.2004), 495

B

- Bank of America National Trust and Sav. Ass'n v. 203 North LaSalle Street Partnership, 526 U.S. 434, 119 S.Ct. 1411, 143 L.Ed.2d 607 (1999), 389
Barkan v. Amsted Industries, Inc., 567 A.2d 1279 (Del. Supr.1989), 674
Baron v. Allied Artists Pictures Corp., 337 A.2d 653 (Del.Ch. 1975), 434, 552
Basic Inc. v. Levinson, 485 U.S. 224, 108 S.Ct. 978, 99 L.Ed.2d 194 (1988), 151
Benjamin v. Diamond, 563 F.2d 692 (5th Cir.1977), 392

TABLE OF CASES

- Blasius Industries, Inc. v. Atlas Corp., 564 A.2d 651 (Del.Ch. 1988), 500, 617, 672, 715
Bluebird Partners, L.P. v. First Fidelity Bank, N.A. New Jersey, 85 F.3d 970 (2nd Cir.1996), 314
BNS Inc. v. Koppers Company, Inc., 683 F.Supp. 458 (D.Del. 1988), 720
Brane v. Roth, 590 N.E.2d 587 (Ind.App. 1 Dist.1992), 278, 503
Brooks v. Weiser, 57 F.R.D. 491 (S.D.N.Y.1972), 368
BT Securities Corporation, Matter of, 1994 WL 710743 (S.E.C. Release No.1994), 254
Bunting Bearings, In re, 302 B.R. 210 (Bkrtcy.N.D.Ohio 2003), 383
Burton v. Exxon Corp., 583 F.Supp. 405 (S.D.N.Y.1984), 432

C

- Caiola v. Citibank, N.A., New York, 295 F.3d 312 (2nd Cir.2002), 261
Campbell v. Hudson & Manhattan Railroad Co., 277 A.D. 731, 102 N.Y.S.2d 878 (N.Y.A.D. 1 Dept.1951), 366
Caremark International Inc. Derivative Litigation, In re, 698 A.2d 959 (Del.Ch.1996), 503, 515, 679
Carmody v. Toll Brothers, Inc., 723 A.2d 1180 (Del.Ch.1998), 707
Case v. Los Angeles Lumber Products Co., 308 U.S. 106, 60 S.Ct. 1, 84 L.Ed. 110 (1939), 388, 389
Cavalier Oil Corp. v. Harnett, 564 A.2d 1137 (Del.Supr.1989), 171
Cede & Co. v. Technicolor, Inc., 1990 WL 161084 (Del.Ch.1990), 204
Cede & Co. v. Technicolor, Inc., 634 A.2d 345 (Del.Supr.1993), 675
Cede & Co. v. Technicolor, Inc., 684 A.2d 289 (Del.Supr.1996), 175
Chesapeake Corp. v. Shore, 771 A.2d 293 (Del.Ch.2000), 714
Cinerama, Inc. v. Technicolor, Inc., 663 A.2d 1156 (Del. Supr.1995), 675, 682
Cofman v. Acton Corp., 958 F.2d 494 (1st Cir.1992), 485
Cooper v. Pabst Brewing Co., 1993 WL 208763 (Del.Ch.1993), 166
Corporate Property Associates 14 Inc. v. CHR Holding Corp., 2008 WL 963048 (Del.Ch.2008), 480
Costello v. Fazio, 256 F.2d 903 (9th Cir.1958), 392

TABLE OF CASES

- Cox Communications, Inc. Shareholders Litigation, In re, 879 A.2d 604 (Del.Ch.2005), 684, 688
Credit Lyonnais Bank Nederland, N.V. v. Pathe Communications Corp., 1991 WL 277613 (Del.Ch.1991), 348
CTS Corp. v. Dynamics Corp. of America, 481 U.S. 69, 107 S.Ct. 1637, 95 L.Ed.2d 67 (1987), 719
Cypress Associates, LLC v. Sunnyside Cogeneration Associates Project, 2006 WL 4762880 (Del.Ch.2006), 366

D

- Dalton v. American Investment Co., 490 A.2d 574 (Del.Ch.1985), 450
Delaware Open MRI Radiology Associates, P.A. v. Kessler, 898 A.2d 290 (Del.Ch.2006), 175
Digex Inc. Shareholders Litigation, In re, 789 A.2d 1176 (Del.Ch. 2000), 693
Dodge v. Ford Motor Co., 170 N.W. 668 (Mich.1919), 553
Domine v. Fulton Iron Works, 76 Ill.App.3d 253, 32 Ill.Dec. 72, 395 N.E.2d 19 (Ill.App. 1 Dist.1979), 588
Donahue v. Draper, 22 Mass.App.Ct. 30, 491 N.E.2d 260 (Mass. App.Ct.1986), 133, 188
Donahue v. Rodd Electrotype Co. of New England, Inc., 367 Mass. 578, 328 N.E.2d 505 (Mass.1975), 16, 565
Dunlap v. State Farm Fire and Cas. Co., 878 A.2d 434 (Del. Supr.2005), 355

E

- Edgar v. MITE Corp., 457 U.S. 624, 102 S.Ct. 2629, 73 L.Ed.2d 269 (1982), 718
Elliott Associates v. J. Henry Schroder Bank & Trust Co., 838 F.2d 66 (2nd Cir.1988), 314
Elliott Associates, L.P. v. Avatex Corp., 715 A.2d 843 (Del. Supr.1998), 439, 615
Elmira Litho, Inc., In re, 174 B.R. 892 (Bkrtcy.S.D.N.Y.1994), 391
Epstein v. MCA, Inc., 50 F.3d 644 (9th Cir.1995), 653
Equity Group Holdings v. DMG, Inc., 576 F.Supp. 1197 (S.D.Fla. 1983), 604
Eshleman v. Keenan, 22 Del.Ch. 82, 194 A. 40 (Del.Ch.1937), 553

TABLE OF CASES

Eternity Global Master Fund Ltd. v. Morgan Guaranty Trust Co.
of N.Y., 375 F.3d 168 (2nd Cir.2004), 276
Evangelista v. Holland, 27 Mass.App.Ct. 244, 537 N.E.2d 589
(Mass.App.Ct.1989), 184

F

Farmers' Loan & Trust Co. v. Northern Pacific Railroad Co., 66
F. 169 (C.C.E.D.Wis.1895), 366
F.B.I. Farms, Inc. v. Moore, 798 N.E.2d 440 (Ind.2003), 25
Federal United Corp. v. Havender, 24 Del.Ch. 318, 11 A.2d 331
(Del.Supr.1940), 613
FGC Holdings Ltd. v. Teltronics, Inc., 2005 WL 2334357 (Del.Ch.
2005), 435
FGC Holdings Ltd. v. Teltronics, Inc., 2007 WL 241384 (Del.Ch.
2007), 437
Fliegler v. Lawrence, 361 A.2d 218 (Del.Supr.1976), 507
FLS Holdings, Inc. Shareholders Litigation, In re, 1993 WL
104562 (Del.Ch.1993), 457
Fox v. 7L Bar Ranch Co., 198 Mont. 201, 645 P.2d 929 (Mont.
1982), 188
Francis v. United Jersey Bank, 87 N.J. 15, 432 A.2d 814 (N.J.
1981), 503

G

Gabelli & Co., Inc. Profit Sharing Plan v. Liggett Group, Inc.,
444 A.2d 261 (Del.Ch.1982), 552
Garbayo v. Chrome Data Corp., 2001 WL 34039495 (D.Or.2001),
371
Gerber v. Computer Associates International, Inc., 303 F.3d 126
(2nd Cir.2002), 653
Geyer v. Ingersoll Publications Company, 621 A.2d 784 (Del.Ch.
1992), 348
Gimbel v. Signal Companies, Inc., 316 A.2d 599 (Del.Ch.1974),
576
Glassman v. Unocal Exploration Corp., 777 A.2d 242 (Del.
Supr.2001), 690
Glazer v. Pasternak, 693 A.2d 319 (Del.Supr.1997), 439
Gonsalves v. Straight Arrow Publishers, Inc., 701 A.2d 357
(Del.Supr.1997), 169, 179

TABLE OF CASES

- Green v. Hamilton Int'l Corp., 76 Civ. 5433 (S.D.N.Y., July 31, 1981), 347
- Guth v. Loft, Inc., 23 Del.Ch. 255, 5 A.2d 503 (Del.Supr.1939), 508
- Guttmann v. Illinois Central Railroad Co., 189 F.2d 927 (2nd Cir.1951), 424

H

- Haft v. Haft, 671 A.2d 413 (Del.Ch.1995), 19
- Hanson Trust PLC v. SCM Corp., 774 F.2d 47 (2nd Cir.1985), 640
- Harbinger Capital Partners Master Fund I, Ltd. v. Granite Broadcasting Corp., 906 A.2d 218 (Del.Ch.2006), 417
- Harff v. Kerkorian, 324 A.2d 215 (Del.Ch.1974), 346, 347, 368
- Hariton v. Arco Electronics, Inc., 41 Del.Ch. 74, 188 A.2d 123 (Del.Supr.1963), 583
- Harriet & Henderson Yarns, Inc. v. Castle, 75 F.Supp.2d 818 (W.D.Tenn.1999), 314
- Harris v. Carter, 582 A.2d 222 (Del.Ch.1990), 691
- HB Korenvaes Investments, L.P. v. Marriott Corp., 1993 WL 257422 (Del.Ch.1993), 491, 622
- HB Korenvaes Investments, L.P. v. Marriott Corp., 1993 WL 205040 (Del.Ch.1993), 417, 456
- Hechinger Investment Co. of Delaware, In re, 274 B.R. 71 (D.Del.2002), 611
- Heilbrunn v. Sun Chemical Corp., 38 Del.Ch. 321, 150 A.2d 755 (Del.Supr.1959), 582
- Helms v. Duckworth, 249 F.2d 482, 101 U.S.App.D.C. 390 (D.C.Cir.1957), 185
- Henke v. Trilithic Inc., 2005 WL 2899677 (Del.Ch.2005), 135
- Hoff v. Sprayregan, 52 F.R.D. 243 (S.D.N.Y.1971), 370
- Hollinger Inc. v. Hollinger International, Inc., 858 A.2d 342 (Del.Ch.2004), 578

I

In re (see name of party)

- Ira Haupt & Company, Matter of, 23 S.E.C. 589 (S.E.C. Release No.1946), 538

TABLE OF CASES

Irving Bank Corp. v. Bank of New York Co., Inc., 140 Misc.2d 363, 530 N.Y.S.2d 757 (N.Y.Sup.1988), 584, 601
Isquith v. Caremark International, Inc., 136 F.3d 531 (7th Cir. 1998), 623

J

Jedwab v. MGM Grand Hotels, Inc., 509 A.2d 584 (Del.Ch.1986), 450, 452
John T. Callahan & Sons, Inc. v. Dykeman Elec. Co., Inc., 266 F.Supp.2d 208 (D.Mass.2003), 526
Joy v. North, 692 F.2d 880 (2nd Cir.1982), 199, 503

K

Kahn v. Lynch Communication Systems, Inc., 638 A.2d 1110 (Del.Supr.1994), 683
Kansas City Terminal Ry. Co. v. Central Union Trust Co. of New York, 271 U.S. 445, 46 S.Ct. 549, 70 L.Ed. 1028 (1926), 388
Katt v. Titan Acquisitions, Ltd., 133 F.Supp.2d 632 (M.D.Tenn. 2000), 653
Katz v. Bregman, 431 A.2d 1274 (Del.Ch.1981), 577
Katz v. Oak Industries Inc., 508 A.2d 873 (Del.Ch.1986), 355
Kaufman v. i-Stat Corp., 165 N.J. 94, 754 A.2d 1188 (N.J.2000), 154
Kemp & Beatley, Inc., Matter of, 64 N.Y.2d 63, 484 N.Y.S.2d 799, 473 N.E.2d 1173 (N.Y.1984), 191
Kham & Nate's Shoes No. 2, Inc. v. First Bank of Whiting, 908 F.2d 1351 (7th Cir.1990), 389

L

LC Capital Master Fund, Ltd. v. James, 990 A.2d 435 (Del.Ch. 2010), 458
Leader v. Hycor, Inc., 395 Mass. 215, 479 N.E.2d 173 (Mass. 1985), 545
Leeds & Lippincott Co. v. Nevius, 51 N.J.Super. 343, 144 A.2d 4 (N.J.Super.Ch.1958), 427
Lerro v. Quaker Oats Co., 84 F.3d 239 (7th Cir.1996), 653

TABLE OF CASES

- Lewis v. Corroon & Reynolds Corp., 30 Del.Ch. 200, 57 A.2d 632 (Del.Ch.1948), 161
- Lohnes v. Level 3 Communications, Inc., 272 F.3d 49 (1st Cir. 2001), 485
- Lyondell Chemical Co. v. Ryan, 970 A.2d 235 (Del.Supr.2009), 517, 700

M

- Major's Furniture Mart, Inc. v. Castle Credit Corp., Inc., 602 F.2d 538 (3rd Cir.1979), 405
- Malpiede v. Townson, 780 A.2d 1075 (Del.Supr.2001), 676
- Matter of (see name of party)**
- McMullin v. Beran, 765 A.2d 910 (Del.Supr.2000), 690
- Meinhard v. Salmon, 249 N.Y. 458, 164 N.E. 545 (N.Y.1928), 16
- Mercier v. Inter-Tel (Delaware), Inc., 929 A.2d 786 (Del.Ch. 2007), 619
- Metlyn Realty Corp. v. Esmark, Inc., 763 F.2d 826 (7th Cir. 1985), 177
- Metropolitan Life Insurance Co. v. RJR Nabisco, Inc., 716 F.Supp. 1504 (S.D.N.Y.1989), 113, 321, 355, 358, 611
- M.G. Bancorporation, Inc. v. Le Beau, 737 A.2d 513 (Del. Supr.1999), 163, 165, 167, 172, 174, 179
- Mills Acquisition Co. v. Macmillan, Inc., 559 A.2d 1261 (Del. Supr.1989), 697
- MM Companies, Inc. v. Liquid Audio, Inc., 813 A.2d 1118 (Del. Supr.2003), 715
- Morgan Stanley & Co., Inc. v. Archer Daniels Midland Co., 570 F.Supp. 1529 (S.D.N.Y.1983), 337
- Moskowitz v. Bantrell, 41 Del.Ch. 177, 190 A.2d 749 (Del. Supr.1963), 552

N

- Nantucket Island Associates Ltd. Partnership Unitholders Litigation, In re, 810 A.2d 351 (Del.Ch.2002), 576
- Nardini v. Nardini, 414 N.W.2d 184 (Minn.1987), 194
- Netsmart Technologies, Inc. Shareholders Litigation, In re, 924 A.2d 171 (Del.Ch.2007), 675, 700