

PREFACE

Corporate Finance is important. It is not an esoteric course. It should be a standard course in a rigorous business law curriculum. Along with Business Associations and Securities Regulation, Corporate Finance should be the foundational course to prepare for corporate and business transactional practice. Business Associations introduces students to different business organizational forms and provides an overview of the duties and powers of directors and officers, governance rights, shareholder litigation, and a bit of securities regulation. This introduction to corporations covers only a portion of the types of problems seen in business law practice.

Financings are routine corporate transactions. Every financing transaction triggers the consideration of two spheres of law. The first is the public law regulating securities issuances and trading, which is Securities Regulation. The second is the mostly private law dealing with the private ordering of the bundles of governance and economic rights embedded in financial instruments; this is the field of Corporate Finance. Business lawyers should have grounding in both the spheres of law. Corporate Finance is a transaction-oriented course. It is fundamentally the study of the legal and economic nature of financial instruments that corporations issue to service their financing needs.

When an author undertakes the work of writing a book, he or she should answer two questions.

Why write it? Although Corporate Finance is a practical subject, there is not a broader selection of casebooks in legal education. There are several wonderful books authored by some of the most distinguished scholars and teachers in the field, but there is not the type of broad selection seen in Business Associations or Corporation Law or even Securities Regulation. There may be reasons for this thin menu. Corporate Finance is difficult. Financial transactions can be factually and conceptually complex. Corporate Finance is an interdisciplinary study. Law, finance, transaction economics, and accounting are intertwined in financing transactions and their documentation. This casebook provides more options in this important field of business law and professional practice.

How is this book different? With the above considerations in mind, I sought to distinguish this casebook from several other fine books in the field in four ways.

1. *This book is interdisciplinary in nature.* I provide essential coverage of the basic concepts of accounting and finance needed for a business lawyer to understand deal economics. Lawyers should not compartmentalize legal issues from business, economic, accounting, and financial issues. They should be more than caretakers of boilerplate contracts and wordsmith functionaries. A corporate lawyer should understand financial transactions as clients and financial advisors do. Essential accounting and financial concepts are comprehensively covered, at the basic level, in clear expository text, including: financial statements, financial statement analysis, time

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value of money, cost of capital, securities valuation, capital structure, market efficiency, and derivatives.

2. *This book facilitates ease of learning and teaching.* I tried to make this book accessible. I avoided excerpting technically dense academic writings in finance and economics, which can intimidate students and teachers alike. There is no hiding the ball or gratuitous academic-speak. I wrote the materials in the plainest way I could to convey essential ideas. Some ideas are difficult, but they should be readily accessible to all if written in clear exposition.

3. *This book provides a basic understanding of financial instruments to prepare students for corporate practice.* I highlighted contractual contents of financial instruments and transaction documents taken from various sources, including: model indentures and debt contracts, SEC filings, legal and financial advisor opinion letters, and corporate charter provisions. Economics and business needs drive corporate transactions, but deals are enabled by law and memorialized in legal transactional documents. Students should begin to see and read financial contracts and documents within the constraint of publication page limits.

4. *This book takes a business and transactional perspective.* I included several case studies, which will give students the opportunity to analyze legal problems in the context of business transactions. These case studies go beyond the specific legal issues and present opportunities to consider more broadly the transaction from business and economic perspectives.

I packaged the materials in this book with a specific course goal in mind. After finishing the course using this book, students should have foundational knowledge of the legal and economic structure of major classes of financial instruments used in financing the corporate enterprise, and such knowledge encompasses a basic understanding of the business, economic, and accounting contexts and the sources of law and documents used in corporate finance transactions. If a student can acquire this knowledge, the book will have served its purpose.

Preface to the Second Edition

It seems that the basic formula of the first edition works. Over the years, the feedback—from students, including students in my own course, and other teachers—has been generally positive. Based on this feedback, the second edition maintains the basic organization and approach of the first edition. Like all newer editions, a few changes were made, keeping up with newer cases and materials and deleting older materials or less relevant materials. Some more substantial changes are the following.

- Chapter 1 Accounting and Financial Statements updates the accounting materials, including a presentation of the financial statements of Google (Alphabet) and Facebook (Meta Platforms), which may interest some students more.
- Chapter 3 Valuation includes new Delaware appraisal cases that deal with the use of the discounted cash flow method of valuation.
- Chapter 7 Debt Instruments has been revised in light of new cases and materials on indentures and covenants.

- Chapter 8 Convertible Securities includes additional materials on venture capital investments.
- Chapter 9 Derivatives has been changed to focus on plain vanilla put and call options, and the section on credit derivatives has been moved to a new Chapter 10.
- A new Chapter 10 Structured Finance has been added to discuss structured finance transactions and instruments with a focus on asset securitizations and credit derivatives.

These changes update and improve the book.

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