

	Course	AIM 6344 Financial Statement Analysis Sections 001- 501		
	Professor	Umit G. Gurun, Phd.		
	Term	Fall 2008		
	Meetings	Section 001: AIM 6344. 001 M	4:00pm-6:45pm	
		Section 501: AIM 6344. 501 M	7:00pm-9:45pm	
	Location	SOM 1.102 (For Monday Class)		

Professor's Contact Information

Office Location	4.435
Email Address	Please use umit.gurun@utdallas.edu to reach me. I will not use WebCT email.
Office Hours	Monday 1:30-3:00 or by appointment. I am available to discuss issues of concern to you on an individual basis either after class or in my office. Please email umit.gurun@utdallas.edu (do not use email in WebCT) to make an appointment for an office visit. So that I can be better prepared for your visit, please give me a general idea of the topic you'd like to discuss. I typically schedule 15 minute appointments; if you believe you will require more time, request a longer appointment. I'm happy to respond by email, but please keep the emails short. Long philosophical discussions and questions like "what do you think of issue X?" are best handled in person.

General Course Information

Pre-requisites, Co-requisites, & other restrictions	The quantitative aspects of the course will require only elementary computational skills; however a calculator and/or some spreadsheet knowledge will be required. I assume that you are familiar with basic finance/accounting concepts (such as definitions of debit/credit, balance sheet/income statement etc.) and have introduction level of accounting knowledge.
Course Description, Objectives & Outcomes	<p>The purpose of this course is to provide students the opportunity to develop skills and understanding of the integration of strategy, accounting, economics and finance. This course provides you with a framework for business analysis and valuation using financial statement data, this framework applies to a variety of business decisions. You can develop the following <i>skills</i>:</p> <ol style="list-style-type: none"> (1) extract relevant information from financial statements and other disclosures to see the underlying business activities and strategy, (2) assess firm performance and risk, (3) assess managerial strategic motives in reporting financial information and ways to adjust for such motives, (4) forecast firm future performance, (5) value the firm or project. <p>The focus is on integrating key concepts from accounting, economics, finance, and strategy areas and applying them to financial decision-making. Skill development requires effort on your part.</p> <p>The course is useful for students planning for careers in investment or commercial banking, corporate management, venture capital, security analysis, credit analysis, consulting, or public accounting.</p> <p>This course uses a small amount of lecture based on readings and discussion/analysis of business cases. To master the skills offered by this course you must come to class fully prepared each day. For days involving lecture, you are expected to have read the required readings and given some thought to their content. The textbook is an excellent source. More importantly, you must contribute to your development – primarily through application with the cases. For days involving case discussion, you are expected to have fully prepared the case for discussion. Full preparation of the case means that you have read the case carefully, perhaps several times, and conducted the relevant financial analysis in detail. Further, you should be prepared to make a recommendation for the decision at hand and be able to support your recommendation with data and analysis. If you are unwilling to make a commitment to preparation/participation at a high level and consistently follow through on it throughout the entire semester, then <u>DO NOT TAKE THIS CLASS.</u></p> <p>By the end of the course students should have answers to the following questions:</p> <ul style="list-style-type: none"> • How are fundamental values (or “intrinsic values”) estimated? • How are business strategies analyzed in order to understand the value they create? • What business activities determine value? • How is “value created for shareholders” identified? • How does one pull apart the financial statements to get at the relevant information for valuing equities?

	<ul style="list-style-type: none"> • What is the relevance of cash-flows? Of dividends? Of earnings? Of book values? • How does ratio analysis help in valuation? • How does profitability tie into valuation? • What is growth? How does one analyze growth? How does one value a growth firm? • How does one analyze the quality of financial reports? • How does one deal with the accounting methods used in financial statements? • How is financial analysis developed for strategy and planning?
<p>Required Texts & Materials</p>	<p>Book 1: Cases to be downloaded from Harvard Business Publishing. Please use this link to access : http://harvardbusinessonline.hbsp.harvard.edu/relay.jhtml?name=cp&c=c62808</p> <p>Book 2: Palepu K, Healy P and Bernard V, <i>Business Analysis and Valuation Using Financial Statements (Text Only)</i>, South-Western, 4rd Edition, 2004. ISBN: 0324302924 – Important Note: You can also use the previous versions of this book.</p>
<p><u>Suggested Texts & Reading Materials</u></p>	<p>For those of you asking additional resources:</p> <p>Penman, S., <i>Financial Statement Analysis and Security Valuation</i>, 2007</p> <p>Copeland T, Koller T, Murrin J, <i>Valuation: Measuring and Managing the Value of Companies</i>, Wiley, 3rd Edition, 2000.</p> <p>Stickney C., Brown P, and J Wahlen. <i>Financial Reporting and Statement Analysis: A Strategic Perspective</i>, Dryden Press, 5th Edition, 2004.</p> <p>White G, Sondhi A and Fried D, <i>The Analysis and Use of Financial Statements</i>, Wiley, 3rd Edition, 2003.</p> <p>English, J., <i>Applied Equity Analysis</i>, New York: McGraw-Hill, 2001.</p> <p>Benjamin Graham, <i>The Intelligent Investor</i>, 4th ed. (New York: Harper & Rowe, 1973)</p> <p>Benjamin Graham, David Dodd, and Sidney Cottle, <i>Security Analysis: Principles And Technique</i>, 4th ed. (New York: McGraw-Hill, 1962)</p> <p>Lawrence Cunningham, <i>The Essays of Warren Buffet: Lessons for Corporate America</i>, (Cardozo Law Review, New York, 1997)</p> <p>Burton Malkiel, <i>A Random Walk Down Wall Street</i>, 7th ed. (New York, Norton, 2000)</p> <p>Andrei Shleifer, <i>Inefficient Markets</i> (Oxford University Press, 2000)</p> <p>Robert Shiller, <i>Irrational Exuberance</i> (Princeton University Press, 2000)</p>
<p>Cases</p>	<p>This course is a case based course. We will discuss many cases through out the semester. I will occasionally lecture on related topics. I will lead/monitor the discussion. Your participation (voluntary or response to cold-calls) will tell me to give a pop quiz or not.</p> <p>Each week on Wednesday, I will post a message to the discussion board on WebCT that outlines the following week’s material and assignments. This document will include questions that we will focus on and other related material. Occasionally, you will be asked to turn in a written report before cases discussion.</p>

Course Policies

<p style="text-align: center;">Grading (credit) Criteria</p>	<p><u>Grade distribution:</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Case Writeups</td> <td style="text-align: right;">85 %</td> </tr> <tr> <td>Pop Quizzes (20/X % each)</td> <td style="text-align: right;">15 %</td> </tr> <tr> <td>Class Participation (bonus)</td> <td style="text-align: right;">5 %</td> </tr> </table> <p><u>Group/Individual Assignments:</u> Assignments include preparation for the case analysis. Some cases (which will be indicated in class in advance) should be done in groups of 4 (four) people. Some cases (which will be indicated in class in advance) should be done individually.</p> <ol style="list-style-type: none"> 1) Prepare a write-up (min 2, max 5 pages) to answer the assigned questions for each case. If the case is a group assignment, then submit one report per group. If the case is an individual assignment, then submit one report per individual. The reports should follow the guidelines I will provide later. Reports not following the report guidelines will not be accepted. 2) In addition to this, each group must prepare a presentation for ONE of the cases from the course outline (there are 12 of them and I will present the first one). You must notify me of your choices in advance, I want to ensure that at least one group has prepared the case in detail, so I may override your choice. Please submit your case choices and group members to me by Tuesday September 15. Grades for cases will be based on your group's combined contribution on the day that we discuss the case. Presentations should not exceed ~15/20 minutes. After the presentation, I will lead the discussion. <p><u>Pop Quizzes:</u> I will give several pop quizzes during the semester. The objective of these quizzes to ensure that you read the case and follow the class discussion. If I give X quizzes, each quiz will contribute 15/X% to your final grade.</p> <p>I realize that many of you have competing interests for your time, accordingly occasional class absences are expected but I also expect to be notified of such absences in advance. Failure to do so may result in a lower grade. Clearly, as a group you have an incentive to ensure that all group members are equally prepared for all elements of the case. Accordingly, I suggest you all attempt the case individually and meet to discuss your answer. The objective is for you all to share your skills and knowledge.</p> <p>Some thoughts on case preparation</p> <ol style="list-style-type: none"> 1. Generally the questions provided are for the purpose of directing you to the big issue(s) of the case. So answering the questions is fine, but asking yourself why they are being asked is equally important. 2. Without having actively attempted the case yourself, I don't believe there is much benefit to seeing an answer. The benefit is in the attempt and then learning what you missed. 3. During the case discussion, or afterwards – you want to ask yourself – why did I not identify those issues and or tools to apply? That is the learning that you want to get to – how to solve problems. How to do calculations etc. you can learn straight from the book. <p>It is the integration of all the facts and analysis that we will strive for in our class discussion.</p> <p>Class Contribution</p> <p>Many of the concepts used in the class may not be new to you or they may be a different way to look at what you already know. The real value then is to apply what you know or learn in the class. This opportunity is afforded to you through the use of cases and the project.</p> <p>I am a strong advocate of students developing their ability to process and articulate their thoughts. To that end, I strongly encourage you to contribute to the class discussion. Quality is more important than quantity and can consist of identifying issues, providing insights and solutions to problems, assisting classmates etc. Experience suggests that preparation often facilitates contribution! I will select people to contribute – demonstrating you are unprepared will negatively impact your contribution grade, similarly being absent without advance notice will as well. Supporting your position is more valuable than having a position! You don't have to agree with me, or any of your class mates, but you do have to support your opinions.</p>	Case Writeups	85 %	Pop Quizzes (20/X % each)	15 %	Class Participation (bonus)	5 %
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	<p style="text-align: center;">Make-up Pop Quizzes & Assignments</p>	<p><u>Missed Pop Quiz/ Assignment:</u> There will be <u>no makeup</u> assignments/pop quizzes. You are required to submit all assignments at the due date/hour. Late assignments will not be accepted.</p> <p>Assignments should be submitted in the first 5 minutes of class time.</p> <p>Students with anticipated absences (such as a documented university sponsored event) should contact me one week prior to the absence. Pop quiz dates will not be announced. If you miss a pop quiz and believe that there is a good reason for the absence, you should bring documentation (such a doctor's report) to support your case.</p>					
<p style="text-align: center;">Extra Credit</p>	<p>None – no exceptions.</p>						
<p style="text-align: center;">Objections to Grades</p>	<p>I will try to release case/assignment grades within two days of submission. I will consider only the written objections to your grade within one week of grade release.</p>						
<p style="text-align: center;">Rules Regarding Classroom</p>	<p>Please turn off your internet connection during the lecture. Please turn off your cell phones during the lectures. Please try to be quiet if you come to classroom late/leave early.</p>						
<p style="text-align: center;">Student Conduct and Discipline</p>	<p>The University of Texas System and The University of Texas at Dallas have rules and regulations for the orderly and efficient conduct of their business. It is the responsibility of each student and each student organization to be knowledgeable about the rules and regulations which govern student conduct and activities. General information on student conduct and discipline is contained in the UTD publication, <i>A to Z Guide</i>, which is provided to all registered</p>						

	<p>students each academic year.</p> <p>The University of Texas at Dallas administers student discipline within the procedures of recognized and established due process. Procedures are defined and described in the <i>Rules and Regulations, Board of Regents, The University of Texas System, Part 1, Chapter VI, Section 3</i>, and in Title V, Rules on Student Services and Activities of the university's <i>Handbook of Operating Procedures</i>. Copies of these rules and regulations are available to students in the Office of the Dean of Students, where staff members are available to assist students in interpreting the rules and regulations (SU 1.602, 972/883-6391).</p> <p>A student at the university neither loses the rights nor escapes the responsibilities of citizenship. He or she is expected to obey federal, state, and local laws as well as the Regents' Rules, university regulations, and administrative rules. Students are subject to discipline for violating the standards of conduct whether such conduct takes place on or off campus, or whether civil or criminal penalties are also imposed for such conduct.</p>
Academic Integrity	<p>The faculty expects from its students a high level of responsibility and academic honesty. Because the value of an academic degree depends upon the absolute integrity of the work done by the student for that degree, it is imperative that a student demonstrate a high standard of individual honor in his or her scholastic work. Scholastic dishonesty includes, but is not limited to, statements, acts or omissions related to applications for enrollment or the award of a degree, and/or the submission as one's own work or material that is not one's own. As a general rule, scholastic dishonesty involves one of the following acts: cheating, plagiarism, collusion and/or falsifying academic records. Students suspected of academic dishonesty are subject to disciplinary proceedings. Plagiarism, especially from the web, from portions of papers for other classes, and from any other source is unacceptable and will be dealt with under the university's policy on plagiarism (see general catalog for details). This course will use the resources of turnitin.com, which searches the web for possible plagiarism and is over 90% effective.</p>
Email Use	<p>The University of Texas at Dallas recognizes the value and efficiency of communication between faculty/staff and students through electronic mail. At the same time, email raises some issues concerning security and the identity of each individual in an email exchange. The university encourages all official student email correspondence be sent only to a student's U.T. Dallas email address and that faculty and staff consider email from students official only if it originates from a UTD student account. This allows the university to maintain a high degree of confidence in the identity of all individual corresponding and the security of the transmitted information. UTD furnishes each student with a free email account that is to be used in all communication with university personnel. The Department of Information Resources at U.T. Dallas provides a method for students to have their U.T. Dallas mail forwarded to other accounts.</p>
Withdrawal from Class	<p>The administration of this institution has set deadlines for withdrawal of any college-level courses. These dates and times are published in that semester's course catalog. Administration procedures must be followed. It is the student's responsibility to handle withdrawal requirements from any class. In other words, I cannot drop or withdraw any student. You must do the proper paperwork to ensure that you will not receive a final grade of "F" in a course if you choose not to attend the class once you are enrolled.</p>
Student Grievance Procedures	<p>Procedures for student grievances are found in Title V, Rules on Student Services and Activities, of the university's <i>Handbook of Operating Procedures</i>.</p> <p>In attempting to resolve any student grievance regarding grades, evaluations, or other fulfillments of academic responsibility, it is the obligation of the student first to make a serious effort to resolve the matter with the instructor, supervisor, administrator, or committee with whom the grievance originates (hereafter called "the respondent"). Individual faculty members retain primary responsibility for assigning grades and evaluations. If the matter cannot be resolved at that level, the grievance must be submitted in writing to the respondent with a copy of the respondent's School Dean. If the matter is not resolved by the written response provided by the respondent, the student may submit a written appeal to the School Dean. If the grievance is not resolved by the School Dean's decision, the student may make a written appeal to the Dean of Graduate or Undergraduate Education, and the dean will appoint and convene an Academic Appeals Panel. The decision of the Academic Appeals Panel is final. The results of the academic appeals process will be distributed to all involved parties.</p> <p>Copies of these rules and regulations are available to students in the Office of the Dean of Students, where staff members are available to assist students in interpreting the rules and regulations.</p>
Incomplete Grades	<p>As per university policy, incomplete grades will be granted only for work unavoidably missed at the semester's end and only if 70% of the course work has been completed. An incomplete grade must be resolved within eight (8) weeks from the first day of the subsequent long semester. If the required work to complete the course and to remove the incomplete grade is not submitted by the specified deadline, the incomplete grade is changed automatically to a grade of F.</p>
Disability Services	<p>The goal of Disability Services is to provide students with disabilities educational opportunities equal to those of their non-disabled peers. Disability Services is located in room 1.610 in the Student Union. Office hours are Monday and Thursday, 8:30 a.m. to 6:30 p.m.; Tuesday and Wednesday, 8:30 a.m. to 7:30 p.m.; and Friday, 8:30 a.m. to 5:30 p.m.</p> <p>The contact information for the Office of Disability Services is: The University of Texas at Dallas, SU 22 PO Box 830688 Richardson, Texas 75083-0688 (972) 883-2098 (voice or TTY)</p>

	<p>Essentially, the law requires that colleges and universities make those reasonable adjustments necessary to eliminate discrimination on the basis of disability. For example, it may be necessary to remove classroom prohibitions against tape recorders or animals (in the case of dog guides) for students who are blind. Occasionally an assignment requirement may be substituted (for example, a research paper versus an oral presentation for a student who is hearing impaired). Classes enrolled students with mobility impairments may have to be rescheduled in accessible facilities. The college or university may need to provide special services such as registration, note-taking, or mobility assistance. It is the student's responsibility to notify his or her professors of the need for such an accommodation. Disability Services provides students with letters to present to faculty members to verify that the student has a disability and needs accommodations. Individuals requiring special accommodation should contact the professor after class or during office hours.</p>
<p>Religious Holy Days</p>	<p>The University of Texas at Dallas will excuse a student from class or other required activities for the travel to and observance of a religious holy day for a religion whose places of worship are exempt from property tax under Section 11.20, Tax Code, Texas Code Annotated. The student is encouraged to notify the instructor or activity sponsor as soon as possible regarding the absence, preferably in advance of the assignment. The student, so excused, will be allowed to take the exam or complete the assignment within a reasonable time after the absence: a period equal to the length of the absence, up to a maximum of one week. A student who notifies the instructor and completes any missed exam or assignment may not be penalized for the absence. A student who fails to complete the exam or assignment within the prescribed period may receive a failing grade for that exam or assignment. If a student or an instructor disagrees about the nature of the absence [i.e., for the purpose of observing a religious holy day] or if there is similar disagreement about whether the student has been given a reasonable time to complete any missed assignments or examinations, either the student or the instructor may request a ruling from the chief executive officer of the institution, or his or her designee. The chief executive officer or designee must take into account the legislative intent of TEC 51.911(b), and the student and instructor will abide by the decision of the chief executive officer or designee.</p>
<p>Off-Campus Instruction and Course Activities</p>	<p>Off-campus, out-of-state, and foreign instruction and activities are subject to state law and University policies and procedures regarding travel and risk-related activities. Information regarding these rules and regulations may be found at http://www.utdallas.edu/BusinessAffairs/Travel_Risk_Activities.htm. Additional information is available from the office of the school dean.</p>

Course Outline:

Below is the tentative course outline. Please download the file named "Course Outline" from WebCT for updates.

Any change to above course outline will be announced in Class and/or WebCT. An updated version of the course outline will be put on WebCT if any change occurs.

These descriptions and timelines are subject to change at the discretion of the Professor.

				Lecture topic / Case Names	% of the final grade
Week	1	08/25/08	Lecture 1	Introduction, Strategy	
Week	2	09/01/08	No Class - Labor Day		
Week	3	09/08/08	Lecture 2	Ratios	
Week	4	09/15/08	Lecture 3	Revenue Recognition/Expense Matching/R&D/Inventories	
Week	5	09/22/08	Lecture 4	Cash Flow Statements / Valuation	
Week	6	09/29/08	Case Discussion	Case 1: Kansas City Zephyrs Baseball Club, Inc.	5%
Week	7	10/06/08	Case Discussion	Case 2: Bed Bath & Beyond	10%
Week	8	10/13/08	Case Discussion	Case 3: Sears, Roebuck and Co. vs. Wal-Mart Stores	10%
Week	9	10/20/08	Case Discussion	Case 4: Health Development Corp	5%
Week	10	10/27/08	Case Discussion	Case 5: Boston Beer Co.	10%
Week	11	11/03/08	Case Discussion	Case 6: Microsoft reporting strategy/Case 7: PolyMedica Corp	10% - 5%
Week	12	11/10/08	Case Discussion	Case 8: Circuit City/Case 9: Patten Corp	5% - 5%
Week	13	11/17/08	Case Discussion	Case 10: Intel Valuation	10%
Week	14	11/24/08	Case Discussion	Case 11: Sietel /Case 12: Summit	5% - 5%
Week	15	12/01/08	Lecture 5	Corporate Governance and Financial Reporting	
Week	16	12/08/08	Lecture 6	Corporate Governance and Financial Reporting	

CASE DESCRIPTIONS

Kansas City Zephyrs Baseball Club, Inc.

This case describes a dispute between the owners of the major league baseball teams and the players' union about the profitability of the baseball teams. The issue is important because of the ongoing collective bargaining negotiations. A consultant is brought in to decide whether a representative team, the Kansas City Zephyrs, is making or losing money. He has to settle a number of accounting disputes about roster depreciation, signing bonuses, deferred compensation, and stadium costs.

Bed Bath & Beyond

This case examines how accurately investors have incorporated information about the growth strategy of Bed Bath & Beyond (BBBY) into share price, especially given the changing competitive environment in the housewares industry and the recent Barron's article pointing to several negative indicators at BBBY. The red flags highlighted in the article include BBBY's request for extended payment terms with its suppliers, inventory buildups, insider sales of stock, and growing short interest in the company's stock. In the days following Barron's article, BBBY's share price falls by more than 10%.

Sears, Roebuck and Co. vs. Wal-Mart Stores, Inc.

Two retailers, Sears, Roebuck and Co. and Wal-Mart Stores, Inc., have a very similar value for return on equity (ROE) in the 1997 fiscal year. We are asked to use the information in the case and the accompanying exhibits, which include financial statements as well as disclosures regarding corporate strategies and accounting policies for each company, to analyze the value creation process for each firm.

Health Development Corp

Health Development Corp. (HDC) owns and operates health clubs in the Greater Boston area. HDC engaged a local investment banker to explore a sale of the company. The most likely buyer views HDC's prior purchase of real estate as a negative. HDC's management is convinced the purchase enhanced value, and a discounted cash flow analysis confirms that it was a substantially positive net present value decision. Nevertheless, the real estate reduces the valuation according to the approach used by the potential buyer. The challenge is to structure a transaction that allows HDC to realize its full value.

Boston Beer

Capital markets may have overcapitalized the craft brewing industry during a flurry of new IPOs. In the context of this "hot" IPO market each individual company's valuation may seem reasonable. However, after careful analysis of each company's financial statement and upon consideration of analysts' forecasts of the industry's growth prospects, it is unclear whether the craft brewing industry is overcapitalized. This could be another "hot" then "crash" IPO industry, like biotech or the computer disk drive industry.

Microsoft financial reporting strategy

This case explores Microsoft's overall financial reporting strategy by examining the company's treatment of two accounting issues--software capitalization and revenue recognition. For both issues, the company selects accounting methods that are relatively conservative. Also discusses the issue of managing analysts' expectations and Microsoft's tendency to provide analysts with very conservative expectations for the future. Provides a forum to discuss possible reasons for Microsoft's accounting and disclosure choices and also discusses the Securities and Exchange Commission's recent investigation into Microsoft's accounting practices.

PolyMedicaCorp. (A)

The Securities and Exchange Commission and investors question PolyMedica Corp.'s practice of capitalizing rather than expensing of direct-response advertising.

Circuit City

Circuit City sells consumer electronic equipment, appliances, and extended service and warranty contracts which supplement those provided by equipment manufacturers. Equipment is sold at low margins, while warranties carry very high margins. A question has been raised about the proper method for recognizing revenues on the warranty portion of the combined sale. Deferring revenue will cut profit reported at the time of sales but may better match costs of warranty service.

Patten Corp.

Forbes Magazine criticized the revenue recognition policy of Patten Corp. As a result, the company's stock price dropped by a significant amount. We are asked to discuss if the criticism by Forbes is justified, and if not, what the company should do.

Sietel, Inc.

The company's accounting for its seismic data library is questioned. Teaching Purpose: Inventory accounting.

Summit Distributors

Summit Distributors was in danger of violating loan covenants because of slow economic activity and forecasted losses and was faced with a choice. Changing the inventory valuation method from LIFO to FIFO would avoid default but would require higher future income taxes. Not changing could mean default on covenants, renegotiating loan terms at less favorable interest rates, or possible bankruptcy.