



A Novel Introduction to Corporate Finance

By Jonathan Godbey and Jason Mehl

Included in this preview:

- Table of Contents
- Excerpt of Chapter 1

For additional information on adopting this book for your class, please contact us at 800.200.3908 x501 or via e-mail at info@cognella.com

Sneak Preview

A Novel INTRODUCTION
TO
CORPORATE FINANCE

BY JONATHAN GODBEY AND JASON MEHL



CONTENTS

CHAPTER 1	1
THE STORY OF CASPIAN SEA DRINKS	
CHAPTER 2	53
TIME VALUE OF MONEY I: THE MECHANICS OF SIMPLE MAGIC MONEY MACHINES	
CHAPTER 3	69
TIME VALUE OF MONEY II: THE MECHANICS OF ADVANCED MAGIC MONEY MACHINES	
CHAPTER 4	93
FINANCIAL STATEMENTS: THE LIFEBLOOD OF MAGIC MONEY MACHINES	
CHAPTER 5	117
THE STATEMENT OF CASH FLOWS: THE LIFEBLOOD OF A CORPORATION	
CHAPTER 6	131
BONDS: FEEDING THE CORPORATE MONEY MACHINE I	

CHAPTER 7	151
STOCKS: FEEDING THE CORPORATE MONEY MACHINE II	
CHAPTER 8	167
CAPITAL BUDGETING I: GROWING THE CORPORATE MONEY MACHINE	
CHAPTER 9	183
CAPITAL BUDGETING II: GROWING THE CORPORATE MONEY MACHINE	
CHAPTER 10	203
SPECIAL TOPICS AND UNANSWERED QUESTIONS: FINE TUNING THE MACHINE	

CHAPTER 1

THE STORY OF CASPIAN SEA DRINKS

I

What if I got an intern?”

“What? For what?”

“I don’t know,” said Sean Stovall. “I was just thinking.”

“You spend,” said William Toth and then swung a driver at a teed-up golf ball and watched the ball sail over the 50-yard sign. “I’ll think.”

William Toth was Sean Stovall’s accountant. Stovall was a mid-level investor who’d been investing his portion of a large inheritance for ten years. He lived well—two houses with pools, expensive cars, boats—but he still felt poor. He was only maintaining a financial status established by his grandfather and his father. He’d employed accountants before and been unhappy with each one. He met Toth one day at breakfast with a friend and business associate. By noon the same day, he’d fired his current accountant, made Toth an offer, doubled it, and hired Toth away from his friend. Toth was young, energetic, and attached to nothing but his smart phone and his bottom line. Everyone who knew him knew that his loyalty was to himself alone, but looking out for himself required him to look out for the interests of his clients—wealthy investors who wanted more wealth.

“I talked to Eric Bensen last week. He said he’s thinking of starting an internship program.”

“Bensen? Where’d you see him?”

“It was a college alumni thing. You know him?”

“Caspian Sea? I know money. You know how much that guy’s worth?”

“I don’t wanna know.”

“About thirty times more than you.”

“You know what I’m worth?”

“I’m your accountant—he’s worth 28.4 times more than you.”

“You said 30.”

Stovall and Toth were hitting golf balls at the driving range, each chewing on unlit cigars. Toth never touched cigars unless he was with Stovall, but he handled the cigar with more aptitude than Stovall who slobbered and spat repeatedly. Stovall had referred to himself more than once as a *cigar officia-undo*.

“How do you even talk to that guy without puking?”

“What?”

“You told me the story two weeks ago. You bailed him out and got nothing in return.”

“I gave my wife a Wimbledon honeymoon. I told you, it was the only way I could get the cash.”

“There are so many things wrong with that.” Toth swung and hit a ball then leaned on the driver he’d borrowed from Stovall. He didn’t own a set of clubs, but hit golf balls harder and straighter than most of the clients with whom he played.

“Like what?”

“Like Wimbledon happens every year. Like Claudia wouldn’t know a half-volley from a drop-shot, no offense. Like you bailed out a fledgling company—possibly, *probably* a dying company—and all you got was what? Eight thousand dollars? That’s like five thousand pounds. Knowing you and Claudia, that barely paid for your Wimbledon lunches.”

“I told you it was a mistake. What do you want?”

“I’m just saying, I know your bottom line. If I were you, I wouldn’t sleep knowing that guy is rolling in it.”

Toth lined up and took a swing and looked away from the ball before it landed. “You’re doing fine and I’m gonna make sure you do better. But—” he bent down and teed up another ball, “I’m not saying you need to do anything, ok? *But*, if I were you, I’d wanna settle that somehow.”

“What’s to settle?”

“The fact that there’s a company worth three billion dollars that wouldn’t exist without your blind, if not ignorant, generosity! Based on what you said, you’ve got no legal ground to expect anything from him—even if you did, it’d be tough to convince a judge at this point, especially going against the lawyers he’d be able to pay. And there’s no way a businessman of his caliber is going to just throw you a chunk of gratitude money.”

“Maybe I could get him to tell the story in some interview or something—give me some credit.”

“Credit? That’s not credit. Listen. There’s no way you come off in that story as anything other than a loser. To Bensen you’re a hero—that’s why he still talks to you like you’re his pal. But to anyone else, you’re the guy who missed out on a big thing—you’re the Trail Blazers picking Sam Bowie over Michael Jordan.”

“So what are you saying?” Stovall asked. He leaned on his driver and stood still and watched Toth carry his driver over to the bag and switch it out for an iron. Toth didn’t speak. He hit five balls and watched them all land and roll within several yards of each other. “You expect me to believe you don’t own clubs?” Stovall asked.

“I’m thinking,” Toth said without looking up. Stovall watched Toth knock over a new bucket of balls and begin hitting them toward various pins on the driving range. He figured Toth would talk when he was ready. He went back to chopping at his own bucket of balls.

Several minutes later Toth asked, “What is Caspian Sea anyway?”

“It’s juice, kind of.”

“Yeah, but it’s confusing. It’s purple and it’s not grape, and it’s named after a foreign lake.”

“So what? It’s selling.”

“Yeah, but imagine how much more it would sell if it made sense—colors that matched flavors with a down home domestic name.”

“He’s already said he’s not doing that. He’s a purist or whatever.”

“Fine. You don’t *want* him to do it. *You* do it.”

“How?”

“Using his formula, just tweak it.”

“And how do I get his formula?”

“His new intern gives it to you.”

“Who’s his new intern? Why would he give her the formula? Why would she give it to me?”

“I’ll figure all that out. I was thinking about a guy intern by the way—a girl might look like more fun, but it’d get too complicated.”

“What? You’re going to give him a fake intern and hope she can get the secret out of him and give it to us? Is that legal?”

“*He*. Is it legal? *Is it illegal?* *Mr. Bensen, did you give the formula to Johnny Intern?* What court in the land is going to convict a guy of car theft if the owner takes the stand and says, *I gave him my keys?*”

II

Eric Bensen, founder and CEO of Caspian Sea Drinks, was recently named Philanthropist of the Year by *The Caritas Response*. The honor was bestowed upon Mr. Bensen due primarily to his involvement with the Liquidity Foundation, which is dedicated to the strengthening of communities in the developing world. The original purpose of the foundation was to finance sustainable clean-water projects for individual communities in Africa. As more needs were identified

in these communities, the foundation became involved in meeting those that were most prominent. With the help of Mr. Bensen's contribution, the Liquidity Foundation plans to continue its work with clean-water projects, while also helping to strengthen existing educational and medical facilities, provide educational opportunities for community leaders, and provide micro-finance opportunities for local entrepreneurs.

Mr. Bensen announced his most significant financial contribution to the foundation so far, \$2 million, at a black-tie fundraiser for one of Liquidity's ongoing medical projects in East Africa. Derek Foster, a junior Finance major, volunteered to work as a waiter at the event. He was assigned to the top table. After maneuvering around tables and waiters and philanthropists and moguls for three hours, making countless trips between the kitchen and the high-profile table, Derek was wondering if he had wasted his Friday night.

When he learned he'd be serving Mr. Bensen, he anxiously thought of potential comments he could make which would lead to a conversation. But the evening was drawing to an end, he was tired, and Mr. Bensen had yet to show any interest in talking to him. No longer thinking about generating conversation, Derek brought dessert to the guests at his table. He carefully placed a slice of red velvet cake in front of Mr. Bensen who, for the first time all evening, spoke to him. "Thanks."

"My pleasure," said Derek.

"You work at Chick-fil-A?" Mr. Bensen asked.

"Excuse me?" Derek had thought about answers to a few potential questions, but that wasn't one of them.

"Do you work at Chick-fil-A?"

"No sir. Sorry, do you smell something?" Derek stood up straight.

"Smell?" Mr. Bensen turned to his left in his chair and looked confused at Derek.

"Do I have chicken hands?"

"Chicken hands?"

“Sorry, I just had a sandwich.”

“They have Chick-fil-A back there?”

“No. Earlier. Before I got here.”

“Don’t they feed you guys here?”

“Probably, I don’t know. I’m sure—maybe they do. They will. I think, maybe, later on ... I didn’t wanna assume. I washed my hands though ... ” Derek’s right hand wobbled slightly, still gripping another plate.

“Relax, you don’t smell like chicken. It was the *my pleasure* response. They’re fond of that at Chick-fil-A. I wanted to ask you if they require employees to use it.”

“Oh. Right. Yeah—yes sir. I don’t know.”

“Why don’t you find that out and get back to me?” Mr. Bensen turned around to his cake.

“Right, yes sir. I will.” Derek took a step behind Mr. Bensen and paused. “Is there, uh, how ... ?”

“I’m kidding.”

“Ha. Yes sir, of course. Sorry.” Derek served cake to the rest of the table and then went into the kitchen. “Chicken hands,” he said to no one, and cursed himself for working the dinner.

Talking to Mr. Bensen, he felt foolish and inadequate. He hated when he did things for the wrong reasons, and he hated that he seemed unable to recognize the wrong reasons until after he’d committed to doing the things. He had to offer refills of coffee. He didn’t want to try to talk to Mr. Bensen again. He wasn’t sure if he should act as if he’d never talked to him, or if he should try to make a joke out of how he’d sounded like an idiot. He rehearsed possibilities in his head.

Mr. Bensen turned to his left again as Derek poured coffee into the cup of the man next to him. “Tell me your name,” he said to Derek.

“Derek.” Derek thanked God he hadn’t said, ‘Ole Chicken Hands.’

“Eric Bensen,” he said and stuck out his hand.

“It’s a pleasure, sir. I mean ... ”

“You’re volunteering here right?”

“Yes sir.”

“Why?”

“Well, honestly? I’m following the advice of a professor.”

“Really? You’re at the college?”

“Yes sir.”

“What kind of professor is he?”

“He’s ok. Young guy, sort of.”

“Math? History? Biology?”

“Sorry. Finance—Intro to Finance—An Introduction to Corporate Finance.”

“Ok. Networking, huh? Bless you Derek. You’re a good student, aren’t you?” Mr. Bensen went for his wallet.

“Well ... ”

“Here’s your contact.” Mr. Bensen held out a card for Derek. “Maybe he’ll drop a quiz grade for you or something—extra credit. Not that you need it though, right?” Derek didn’t respond. “Call and make an appointment. Come and tell me about Corporate Finance. I could use some of that.”

“Seriously? Yes sir. Thank you, sir. Thanks.”

Sean Stovall, sitting with his tanned and yoga-toned wife three tables away from the head table, had been watching Bensen all night. When he saw Bensen give a business card to Derek he nodded to himself like he’d just caught on to an old magic trick. When the dinner ended, Stovall approached the head table and waited for an opportunity to shake his hand.

“There he is!” said Bensen as they shook hands. “How are ya?”

“Good, man. Nice event—big night for you!”

“Yeah, thanks. Hey, wasn’t I talking to you about the whole internship thing?”

“Yeah.”

“I think I might’ve found my guy.”

“Yeah? Who’d’ve thought you’d find some waiter you could mentor?”

“What do you mean?”

Stovall swallowed hard, realizing he might’ve just betrayed his awareness of Toth’s plan. “I mean, is that the guy? That waiter guy I saw you talking to?”

“Yeah. Uh ... yeah. The waiter, I don’t remember his name. He’s a student, volunteering.”

“Yeah, ok, good. I don’t know his name either,” Stovall said.

“Of course not,” Mr. Bensen said, and looked confused. “Well, good seeing you.”

“Yeah. Good. You too. See you around.”

III

Derek made the phone call around lunch the following Monday and was given an appointment the next day. He wondered what he should wear. He didn’t own a suit—he’d had to rent one to wait tables at the dinner. He decided not to try too hard—he was a student, he’d dress like a student—a serious student. The next afternoon, as he looked out through the glass of the elevator lifting him twenty-three floors over the sea of suits swarming around the ground floor of the building, he second-guessed his decision. The elevator stopped. He stepped off and walked over and through the opening between floor-to-ceiling glass windows etched with the Caspian Sea logo.

“I have an appointment with Mr. Bensen,” he said to the woman at the reception desk.

She smiled and pointed him through another opening behind her where an older woman sat behind another desk. She stood up. “Derek?” She stepped out from her desk and Derek walked over to her and shook her hand.

“Yes ma’am,” he said.

“I’m Mrs. Howe. We talked on the phone. Nice to meet you.” She stepped over and opened the door behind her. “Mr. Bensen’s expecting you.”

“Thanks,” Derek said and stepped into the large office. Mr. Bensen stood up, walked around his desk and extended his hand, “Derek, good to see ya.” They shook hands. “Have a seat.” Mr. Bensen gestured toward a round table in the opposite corner of the room.

“Thank you, sir.” Derek sat in a chair that provided him with a view of the entire office, as well as a good portion of the city outside the windowed walls. He then said the first thing he’d planned to say, “My pleasure? Chick-fil-A? They do tell everyone to respond that way to anyone who thanks them.”

“Really? They require it?”

“Yeah, well, they highly recommend it.”

“What do you think about that?”

Derek answered Mr. Bensen’s question, which led to a discussion about the nature of customer service in general, which led them to a discussion of advertising. An hour later they were deep in conversation about the complicated relationship between collegiate athletics and the revenue it generated, still seated in the same chairs, each sipping from a second glass of Caspian Sea Mr. Bensen had poured from bottles he kept in a nearby fridge. Derek finished his glass and said, “You know, I’ve been a Coke guy since I was a kid and I’ve only had Caspian Sea a couple times. But I’ve gotta tell you, it’s pretty good stuff.”

“Good. Glad you like it. Buy it.”

Mr. Bensen glanced at the clock across the room. “Wow. Derek, it’s been a good hour, but I’m afraid we’ve gotta wind things up.” He stood up, and so did Derek, and they shook hands. Derek wasn’t sure what to do. He was glad he’d got through the conversation without looking like an idiot, but he wasn’t sure he’d accomplished anything. Besides his Chick-fil-A line, he didn’t go into the meeting with any

planned course of conversation or action, and he was starting to regret it.

He stopped before he left the office.

“Yeah, well, thanks for the drinks. Thanks for the time.”

“My pleasure,” said Mr. Bensen.

Derek missed the joke. “Mr. Bensen. I’m not sure—I appreciate your willingness to talk and all. Honestly, I feel like I maybe wasted your time though.”

“Why’s that?”

“What’d we talk about? Football?”

“Are you concerned about my time or yours? I chose to talk for the last hour. I’m fine with my time. What did you choose to do?”

“No, it’s not that I expected anything in particular. But ... ”

“Relax, seriously. You knew you had to come see me when I invited you to my office, even though you had no idea what to expect. But you did expect something, right? Be honest.”

“Yeah, I guess.”

“What?”

“I don’t know. Maybe to learn something? I don’t know.”

“Ok. First of all, so much of what you will or won’t do in business will come down to relationships—call it *networking* if you want—like your professor—but it’s more than that. It’s more than *who you know*. It’s *who you are*. I don’t know who you are, but I know more about you now than I did an hour ago. You want something from me—something direct or specific, even if you can’t tell me what it is. I want something from you.

“For the last couple of months I’ve been thinking about starting a mentoring relationship with the college—you know I went there too? I’d like to find someone with talent and character who could use a break and who’d work hard once he or she got one.”

“Uh, right,” Derek answered. “So, you want to mentor me?”